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China Report

ECONOMIC AFFAIRS

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CHINA REPORT

ECONOMIC AFFAIRS

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NATIONAL POLICY AND ISSUES

ZHAO STRESSES SHANGHAI'S ROLE AS ECONOMIC CENTER

Zhao Inspects Shanghai

Shanghai WEN HUI BAO in Chinese 16 Jan 85 p 1

[Article by Jin Dongmin [6855 2639 3046]: "Shanghai Should Promote Its Role as National Economic Center--While Inspecting Work in Shanghai. Premier Zhao Noted the Need to Broaden Horizons, Enliven Our Thinking, Open Up Avenues and Strive To Build Shanghai into an Open, Multi-purpose Modernized Central City"]

[Text] Premier Zhao Ziyang of the State Council recently inspected the work in Shanghai. During the inspection, he said: "Shanghai is full of promise. Transforming and revitalizing Shanghai should be included on the national agenda. Shanghai is at a crucial moment of a strategic change. Under the new situations of opening up and reforming, Shanghai should seize the opportunity, bring into full play its strong points, vigorously overcome difficulties and enter the orbit of a benign cycle to transform and revitalize itself to make a greater contribution to the country.

During his inspection of Liaoning in July 1984, Premier Zhao Ziyang charted a clear course for the economic development of Shanghai by pointing out that the two old bases of Shanghai and Liaoning must be transformed and revitalized. In August, the State Council and the Central Financial and Economic Leading Group heard the briefing on Shanghai's economic work. In September and October, the Investigation Group of the State Council for Shanghai's Transformation and Revitalization came to Shanghai to help out in the study of Shanghai's economic development strategy. In early December, as soon as he had completed his inspection of the Zhu Jiang delta, Premier Zhao, accompanied by Vice Chairman Yao Yilin and others, came to Shanghai to inspect work and study the issue of Shanghai's transformation and revitalization as well as issues concerning authority, policies and conditions needed to achieve a strategic change. Others who came to inspect Shanghai were Lu Dong, chairman of the State Economic Commission; Lu Peijian, president of the People's Bank of China; Jiang Zemin, minister of the electronics industry; Ma Hong, president of the Chinese Academy of Social Sciences; Gan Zhijian [1626 1807 1017], vice chairman of the State Planning Commission; An Zhiwen and Bao Tong [7637 1749], vice chairmen of the State Restructuring of the Economic System Commission; Ma Zupeng [7456 4371 1756], deputy secretary general of the Central Financial and Economic Leading Group; Xie Ming, adviser at the Ministry of Finance; Xu Xuehan [1776 7185 1383],

permanent secretary of the Economic Research Center of the State Council; Jin Deqin, president of the Bank of China; Wang Pinqing, assistant minister of foreign economic relations and trade; and Comrade Wang Jikuan [3769 4764 1401] of the Ministry of Foreign Economic Relations and Trade.

Comrade Ruan Chongwu [7086 1504 2976] delivered a report on Shanghai's economic work on behalf of the Shanghai Municipal CPC Committee and Government. This report emphatically expounded conditions needed to carry out Shanghai's economic development strategy which was meted out and reported to the State Council and the Central Economic and Financial Leading Group jointly by the Investigation and Research Group of the State Council for Shanghai's Transformation and Revitalization and the Shanghai Municipal CPC Committee and People's Government after the investigation group conducted comprehensive and systematic investigation and research in Shanghai. Comrade Ruan Chongwu's report analyzed subjective and objective conditions such as Shanghai's position and role in the nation, its special advantages and current difficulties, present situations and demands of the state and the four modernizations. Then the report set forth the following target for the development strategy: Through transformation and revitalization, we should strive to build Shanghai into an open, multi-purpose and modernized socialist central city with a rational industrial lineup, a booming economy, a prosperous culture and developed science and technology. Shanghai's party and government leaders attending the briefing were Chen Guodong [7115 0948 2767], Hu Lijiao [5170 4539 2403], Yang Ti [2799 1029], Wang Daohan [3076 6670 3211], Chen Tiedi [7115 6993 6611], Sun Guizhang [1327 6311 3864], Wu Bangguo [0702 6721 0948], Zhang Dinghong [1728 1353 7703], Huang Ju [7806 5468], Ping Changxi [1627 2490 0823], Wang Jian [3769 7003], Zhu Zongbao [2612 1350 5508] Li Zhaoji [2621 5128 1015], Liu Zhenyuan [0491 2182 0337], Ni Tianzeng [0242 1131 1073], Ye Gongqi [0673 0361 3823], Yang Kai [2799 1956] and Pei Xianbai [5952 0341 4101].

Think of Shanghai as the Largest National Economic Center

While hearing the report of Shanghai, Premier Zhao emphatically pointed out: Shanghai's role as an economic center should not merely be equated with or limited to an industrial base. Of course, Shanghai is the biggest industrial base. It is also one of the oldest industrial bases. But we should not think of it as an industrial base. Because if we do, we would be limiting our train of thought and Shanghai's contribution to the country. If we think of it as the largest national economic center, we can broaden our horizon, enliven our thinking and open up avenues. In the past 30 years, due to the barriers between central and local authorities, Shanghai's role as the largest national economic center has been subjected to great objective restrictions, and limitations of the economic system have gradually weakened Shanghai's role as the largest economic central city. Since adopting the open door policies at home and abroad, this situation has been changing. Shanghai's role will become increasingly great. Shanghai has entered a crucial moment of change. It should gradually overcome difficulties to move to a benign cycle so as to transform and revitalize itself, bring into play its role as a multi-purpose central city and make greater contributions to the country.

Shanghai Should Increase the Ratio of Fledgling Industries

Premier Zhao is extremely concerned with Shanghai's restructuring of the economic system. During his inspection of Shanghai, he heard reports on the reform of the Shanghai No 2 Radio Plant, the Shanghai No 17 Cotton Mill, the Shanghai Machine Tool Plant and the Shanghai No 1 Steel Plant. Premier Zhao emphatically pointed out: The key is to invigorate enterprises. Once enterprises are invigorated, it is like trees with no roots and rivers with no sources which cannot solve any problem.

Premier Zhao Ziyang, Vice Premier Yao Yilin and other leading comrades also heard a report on the work of the Shanghai Economic Zone delivered by Director Wang Lin and deputy directors Zhou Guangchun [0719 0342 2504] and Bai Yang [4101 2799] of the Shanghai Economic Zone Planning Office of the State Council. When he was briefed on the issue of raw materials and energy supply in the economic zone, Premier Zhao said the key is to invigorate the market for means of production. He also said the method of doing management with raw material production areas is reliable. With regard to the tentative plan of building six electronics complexes in the economic zone, Premier Zhao said: We should first concentrate on Shanghai instead of trying to build six electronics complexes and Shanghai at the same time. Shanghai should increase the ratio of fledgling industries. This is an issue of development strategy. Profits made by Shanghai's electronics industry from each 100 yuan of investment are more than double the national average. This is what we call good economic results and this is why we need to support Shanghai and choose the superior. Shanghai should not do everything from scratch. It can have its neighboring areas produce spare parts and assemble them itself. In this way, Shanghai may develop faster than other areas. Premier Zhao also stated the experiences of other coastal cities. He summed them up in one sentence: "Relying on inland industries and fully using 'windows' to make technological development."

Full of energy and with great interest, Premier Zhao Ziyang inspected the construction site of the Baoshan Iron and Steel Company and the Shanghai Auto Plant in Shanghai, visited Malu Township of Jiading County, toured an interior decoration and new tableware exhibit and looked around in the downtown area of Shanghai Municipality.

Promote Educated and Talented Young Comrades Who Have a Pioneer Spirit to Leading Positions

During his inspection in the Baoshan Iron and Steel Company, Premier Zhao Ziyang heard the briefing of Li Dongye, minister of the metallurgical industry, and Li Ming, vice minister of the metallurgical industry and chief commander of engineering projects at the Baoshan Iron and Steel Company. Premier Zhao Ziyang also signed the visitors' book.

Premier Zhao Ziyang said: The Baoshan Iron and Steel Company is China's first iron and steel enterprise with an advanced world-class technological level. It must learn how to manage with modern methods. When he signed the visitors' book, he saw Comrade Xiaoping's inscription: "What is more

important is to blaze new trails." He said: Comrade Xiaoping made a higher demand on you. To be able to blaze new trails, first you should do a really good job in management. Your capital construction is good in general. Doing a really good job in management is not that easy. You should pay attention to talented people because they are the key. You should promote educated, talented young comrades with management knowledge and a pioneer spirit to enterprises' leading positions at all levels. When Premier Zhao inspected the raw material wharf of the Baoshan Iron and Steel Company, he said: Shanghai should be determined to establish joint ventures using Chinese and foreign investments to supply complete sets of equipment by signing general contracts including design, and receiving both domestic and foreign orders. This is also called tertiary industry. It can remove the barriers between regions and departments. The key is to place orders for equipment. To enlarge the scale, these companies can also contract for construction. They can contract all projects and subcontract them to better contractors. This is the key. Coastal open cities should all establish such companies. They are a great industry for coastal cities. Shanghai must ensure that it carries out this work, and coastal cities should make due contributions to it.

Suburban Farming Industry Should Engage in Food Industry and Export Fresh and Live Products

Premier Zhao Ziyang inspected the Shanghai Auto Plant in Anting County and Malu Township in Jiading County. A responsible person of the Shanghai Automobile and Tractor Industry Cooperative Company reported that the Shanghai Auto Plant has signed a contract with the Volkswagen Company of the Federal Republic of Germany to produce cars in a joint venture. Its first step is to produce 30,000 "Shanghai--Santana" cars a year and then reach the annual capacity of 100,000 within 5 years. It further plans to quickly reach the annual capacity of 300,000 cars and change Anting into an automobile city. On hearing this, Premier Zhao said happily: "It will become China's Detroit." He also said: You should build a variety of models and see which one has a brighter future. Generally speaking, family cars will not be in great demand, but because of a large population in China, the absolute number will not be very small either. There is a bright future in China's taxi business. Taxis are in great demand now in urban areas. Before long, small towns in suburban areas will also need taxi service. Private taxi companies run by specialized households and small cooperative taxi companies will probably make great developments in the future.

Premier Zhao toured a village-run children's car factory in Malu Township and saw small, exquisite children's cars in novel styles being packed one after another. When told that this factory does compensatory trade with foreign investors to produce 200,000 children's cars a year for export to the U.S. market, he said cheerfully: It is not that easy for a village-run enterprise to be able to produce export children's cars with such high quality. After he was briefed on the basic situation of Malu Township, Premier Zhao said: Suburban farming industry must develop the food industry and export fresh and live products. It is totally possible for inner suburban areas to develop fresh and live products and export some flowers and plants if they

take advantage of such favorable conditions as information, technology, foreign relations and convenient communications.

The Key to Developing the Area East of the Huangpujiang Is To Solve the Communications Problem

Premier Zhao Ziyang and Vice Premier Yao Yilin arrived at the hall on the first floor of the Shanghai Exhibition Center to tour an interior decoration and new tableware exhibit sponsored by the Shanghai Municipal Interior Decoration Cooperative Contract Company. They also heard with great interest a briefing delivered by a responsible person of the company. Premier Zhao said: Uniting different industries through the interior decoration cooperative contract company is a very good method. I suggest you cooperate with foreign countries. If your materials are not good enough, you may import materials and process them at home. If your designs are backward, you may process goods based on imported models. You may also carry out technological cooperation with foreign countries. You should not only take over hostels, middle-class and low-class hotels, but also contract for large hotels. You should cooperate with foreign countries in contracting for large hotels. By so doing you can unite domestic and foreign forces and gradually improve our level through cooperation and joint management. After touring the exhibition, Premier Zhao inspected the Shanghai Hotel. At the hotel he heard a briefing on the Aiguo Construction Company delivered by Comrade Liu Jingji [0491 7231 1015]. Premier Zhao expressed appreciation for the work of the Aiguo Construction Company since its establishment. He said: You have done quite a few things in such a short period of time.

Editorial on Shanghai's Role

Shanghai WEN HUI BAO in Chinese 16 Jan 85 p 2

[Editorial: "There Are Bright Prospects for Revitalizing Shanghai"]

[Text] Premier Zhao Ziyang recently inspected Shanghai's work and clearly defined the direction, target and focus of the strategy for transforming and revitalizing Shanghai. This indicates that Shanghai's economy and social development have entered a brand new period. In this new period, Shanghai will be further opened to all parts of China and to all countries of the world. Shanghai will strengthen its multiple functions as a central city. Shanghai's economy will develop along a benign cycle. And Shanghai will play a better vanguard role in the four modernizations.

When the news spread, cadres, staff members and workers of all fronts in Shanghai and the people throughout the municipality were greatly encouraged and inspired. There are great prospects for revitalizing Shanghai! There is a great future in revitalizing Shanghai!

Transforming and revitalizing Shanghai has always been a concern of central leaders and a wish of the people throughout the municipality. It is also a concern of the nation and the focus of attention of the world. Because Shanghai belongs to the whole country it has an extremely important position

and function in China's four modernizations. In the past 35 years since liberation, Shanghai has scored enormous achievements in socialist economic construction under the leadership of the CPC Central Committee, with the support of the whole nation and through the efforts of the people throughout the municipality. Not only has it made great contributions to supporting China's construction by turning out large numbers of products, funds, technology and talented people but it also has made great contributions to China's previous and current reforms of the economic system. However, because for a long time it concentrated on developing industry and ignored construction of the infrastructure and development of "tertiary industry" it has weakened the multiple functions that Shanghai Municipality is supposed to have. If this situation is not changed quickly, it probably will cause Shanghai to slow down its progress, reduce economic results or even go downhill. This will also be a great loss to China's four modernizations. Now Shanghai is clear about its target of development strategy; that is, to build quickly, through transformation and revitalization, Shanghai into an open multi-purpose modernized socialist central city where the industrial lineup is rational, the economy prosperous, science and technology thriving and culture developed. People throughout the municipality hail this important and timely policy decision.

Shanghai has always been an open city. It should be more so in the future. When he inspected the Zhu Jiang and Chang Jiang deltas, he used the analogy of "two fans and one pivot" to vividly and accurately depict the way Shanghai Municipality is open to other parts of China and to foreign countries. Shanghai has a fairly strong economic strength and technological basis and fairly close economic and technological relations with other parts of China and foreign countries. It also has relevant organizations, talented people and historical experiences and exceptionally good geographical conditions. Located on the west coast of the Pacific Ocean, the middle section of the China coastline and the mouth of the Chang Jiang, Shanghai has railways linking north and south, natural channels of the Chang Jiang, a long, continuous coastline and a huge airport which have formed several main arteries of free-flowing communications extending to all parts of China and all countries of the world. One of the "two fans" is open toward inside with the economic zone as its basis; the other is open to the outside through the Pacific Ocean. Located at the center of these two fans, Shanghai plays the role of a pivot. Opening to foreign countries basically means to face the world and open up to international markets. To do so, Shanghai must import advanced technology, hasten technological transformation and continuously upgrade and renew products to increase its ability to compete. The greater its influence on foreign countries, the more it needs cooperation and support from inland China to form a powerful backing. Opening up to other parts of China mainly means developing strong points to make up for weaknesses and bolstering economic and technological cooperation and integration to invigorate the economy and help develop each other's economy and technology. The greater its influence is on inland China, the more it needs to expand economic and technological exchanges with foreign countries to arrive at a modernized level, transfer better advanced technology and experience to inland China, and hasten the development of the whole national economy. This holds prospects for a bright future.

Shanghai is China's largest economic central city. It should have multiple functions. Premier Zhao emphatically pointed out: The role of an economic center should not be considered, equated with or limited to an industrial base. Of course, Shanghai is one of China's biggest and oldest industrial bases, but it is also the biggest harbor, the biggest foreign and domestic trade center, a scientific and technological center and a financial center. It also should be the biggest information center. These are objective conditions. As the largest economic center, Shanghai ought to have these conditions. This is the starting point of transforming and revitalizing Shanghai. Under the irrational economic management system of the past, Shanghai's multiple functions were gradually weakened due to the restrictions of objective conditions. At the same time, we had a very narrow vision because of the restraints of old ideas. We used to measure Shanghai's contribution to the state only by its industrial production and the amount of revenue it handed over to the state. We used to consider achieving the magnificent goal at the end of this century only by doubling its industrial output value. Now that we have received Premier Zhao's directive, we have a broader vision, livelier thinking and broader roads. Along with the comprehensive development of reform and opening up to the world, conditions of all fields are changing, and it is more and more urgent that Shanghai play the role of a multipurpose central city and make more contributions to the four modernizations of China. This is the main criterion for evaluating Shanghai's work. In fact, the better Shanghai plays the role of a multipurpose economic center, the more prosperous the economy will be and, as an inevitable result, the industrial production of Shanghai Municipality will develop faster and its economic results will be greater.

Shanghai should further rationalize its industrial lineup to be conducive to the coordinated development of the economy and society. Premier Zhao summarized this in three sentences: 1) Traditional industries need to be transformed. 2) The ratio of fledgling industries should be higher than the national average. 3) "Tertiary industry" needs to be developed vigorously. This is very suitable for the actual conditions of Shanghai. The first two items refer to "secondary industry." The most important event in the past few years has been technological transformation. Not only do traditional industries need to carry out technological transformation to quickly reverse the backward situation of outdated equipment, technology and products, strive to catch up to advanced world levels and improve economic results, but fledgling industries also need to carry out technological transformation to master advanced technology, quickly form production capacity and raise their ratio in industries. It is not necessary for fledgling industries to start all over again. We should pay special attention to the "tertiary industry" which needs to be quickly developed. Shanghai has a definite foundation for commercial and financial undertakings, communications, tourism, service trade, public utilities, science and technology, education, culture, public health, information and consulting service, but they are all very weak. All people, including collectives and individuals, must go all out to speed up their development. When "tertiary industry" is invigorated, it will increase Shanghai's ability to attract more merchants from neighboring as well as remote areas. Only by doing so can we create better conditions for Shanghai to render service to the cause of opening up to China and foreign countries, bring into further play Shanghai's role as a multipurpose central city,

further increase Shanghai's gross national output value and state revenue and enable the economy to prosper, science and technology to thrive and culture to develop in Shanghai at an earlier date.

At present, Shanghai is facing the challenge of a new world scientific and technological revolution and acute competition in international markets and fierce competition in domestic markets. At the same time, the days of cheap energy resources and raw materials distributed according to state plans will soon end. Now Shanghai is facing an extremely grim situation. What shall we do? Premier Zhao said: There are two major things. One is to invigorate enterprises; the other is to improve key infrastructure projects and the investment environment. Now that the focus of reform has shifted to urban areas, the first key is to invigorate urban areas by invigorating enterprises and unleashing the latent potential of production. Moreover, we should mainly separate the responsibilities of government organs and enterprises, simplify administration, delegate power to lower levels, ensure that management power belonging to enterprises is delegated to enterprises. Inside enterprises, we should mainly link enterprises' economic results with the income of their staff members and workers and their total wage funds. The insufficient infrastructure of Shanghai Municipality is a very heavy burden. Housing shortages, clogged communications and severe pollution are left over from history. If urban infrastructure is not improved, nobody will want to invest here, much less develop it. Only by improving key projects for the urban infrastructure in a planned and step-by-step manner can we provide a good environment for investment, attract domestic and foreign investors to invest in and develop Shanghai, improve the people's housing and living standards and invigorate and do a good job in opening up to China and foreign countries.

The year 1985 is a year to transform and revitalize Shanghai. Shanghai's development strategy has been defined. Ways to carry out this strategy have also been defined. This strategy was adopted after repeated discussions by all fronts of the municipality, systematic investigation and study by an investigation and research group of the State Council, and extensive discussions by experts and scholars from all across the country. After hearing the reports of the municipal CPC Committee and government, Premier Zhao expressed a series of opinions which have improved our understanding and increased our confidence. Let us soon make a fresh step as pioneers under the excellent situation of reform and opening up, fully exercise our strong points, overcome difficulties and enable Shanghai to develop along the track of a benign cycle, continue to open up new prospects and display new outlooks.

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NATIONAL POLICY AND ISSUES

DIALOGUE ON INTEGRATION OF NATURAL, SOCIAL SCIENCES

Beijing LIAOWANG [OUTLOOK WEEKLY] in Chinese No 2, 7 Jan 85 pp 22-23

[Text] Editor's note: Applying mathmatical models in economic research is a new attempt to integrate the natural and social sciences. This conversation between two scientists, renowned in their separate fields, was accidential. Nevertheless, the issues they covered are inevitable--the developing trend of modern science and technology toward becoming highly diversified and highly integrated results in the continuing intensification of the penetration and fusion between the natural and social sciences. The concepts and methodologies of natural sciences have gradually penetrated the social sciences and have become important methods in social science studies. The research results of social sciences have also exerted more and more influence on the development of natural sciences. Therefore, no single discipline alone can solve the complicated problems brought forth by modern society. Under these circumstances, the dialogue between natural and social sciences is a historical certainty.

We are expecting frequent and effective "collisions" between the two major sciences. We believe that this kind of "collision" will generate unimaginable and enormous creative power.

Not long ago, an important conference was held in Beijing. During recess, two famous scientists, who are also old friends--Xui Muqiao [5641 2550 2890] of economics and Qian Xuesen [6929 1331 2773] of natural sciences, met unexpectedly. They sat down together and carried on a meaningful and profound conversation.

Xue Muqiao: How to apply the knowledge of natural sciences more effectively to serve social sciences, in particular economic development, is an important question. With the development of social productivity, the reciprocal penetration among disciplines becomes increasingly important. For example, the

problem of how to apply systems engineering to economic studies to obtain valueable practical results is worth investigating. You are an expert in the area of systems engineering.

Qian Xuesen: I am no expert on systems engineering. The Institute of Econometrics and Technological Economics, Chinese Academy of Social Sciences, is studying this subject. Comrade Wu Jia-pei [2527 1367 1014] of the Institue began studying this problem in the early 1960's. Western nations began to apply mathematical methods to analyze macroeconomics and microeconomics earlier. Not long ago, the Information Control Institute of the Ministry of Aviation Industry, a technical engineering unit originally specialized in automatic control area, was commissioned by the Economic System Restructuring Commission of the State Council to construct an economic model that can, by mathematical quantitative analysis, adjust the prices of oil and grain as well as wages to solve the problem of financial subsidy. These scientific and technical personnel trained in natural sciences naturally have no idea of economics. Therefore, in the process of constructing a model several economists were invited to lecture on some special topics in economics, and a large amount of data and information were collected from appropriate economic departments. This model contains several hundred variables and several hundred equations. By calculating with a computer with the speed of a million operations per second, the results show that: so long as the annual rate of increase of agricultural development reaches 6 percent, light industry reaches 7 percent and heavy industry reached 8 percent, price adjustments would enhance economic development and increase revenue but would not cause economic chaos and lower the living standard. Some economists believe that this model can be very helpful in macroeconomic decision making on the national economy. This is a more successful case of applying natural sciences to economics. I suggest that attempts continue to be made in this area. Economists, based on their experiences, provide economic projects and explain the internal connection and developmental trend of economic phenomena. Natural scientists and experts in the systems engineering help economists carry out quantitative analysis. On this apsect, merely relying on the efforts of one side is like "clappingwith one hand".

Xue Muqiao: It is extremely necessary to employ econometrics and computers to carry out economic analysis. But, for the moment, two major difficulties have to be dealt with first. First, because economic activities are extremely complicated, the making of an economic decision is often constrained by factors from many areas such as politics, economics, etc, including some that cannot be quantitatively analyzed. This brings a substantial degree of difficulty in constructing a scientific economic model. Second, a substantial portion of economic statistical data that we have are not accurate enough, especially those from some historical periods. They have been influenced to a greater extent by politics or other special situations and cannot accurately reflect the regularity of economic development. Comrade Hua Luogeng [5478 5012 1649] says that computers are not lie detectors. With unreliable input, the output data cannot be trusted and thus has no practical value. However, this is not to say that computers cannot be used

in economics. This is to say that economic management departments shall strengthen their work on measurement and calculation of statistical data in order to be as accurate and complete as possible so that a regular correlation can be found. Of course, there is a direct correlation between regularity of data and stability of economic development. We have to arrange a large group of economic management personnel to learn econometrics and computer technology. We also can train from among engineering students a group of economics experts to perform quantitative analysis.

Qian Xuesen: Some engineering schools in China, such as Qinghua University, Tianjin University, Shanghai Jiaotong University, Shanghai Mechanical College, Central China Engineering College, and Xi'an Jiaotong University, offer systems engineering as a special field of study. Personnel trained in systems engineering can find projects from economic departments, do research and boldly apply information theory, control theory and systems engineering to economics. Economic departments also have to take the initiative to provide projects.

Xue Muqiao: Before the "cultural revolution", departments studying economic theories and those doing practical work were isolated. Now, the Economic Research Center of the State Council is able to interconnect departments doing social science research and those doing actual business. But it has not done a better job in interconnecting natural sciences and economic science. The Technological and Economic Research Center of the State Council has accomplished a lot in this area. Further attention should be brought to the integration of natural sciences and economic science.

Qian Xuesen: Comrade Ma Bin [7456 6333] of the Economic Research Center of the State Council is very supportive of the work of constructing economic models. The support of the leaders in related areas is vital to furthering the development of this task. I suggest that many entities be created and dedicated to the research and practice of economic systems engineering. It is imperative that specialists with many years of practical experience in economic matters as well as economic theorists join these entities. Their working experience and knowledge of social science theories are very much needed for ideological guidance. Because of the complexity of the problem, mathematical theory problems will also come up. Thus, the participation of mathematicians is needed, such as Beijing University's Professor Liao Shantao [1675 1472 3447], whose expertise in differential dynamic systems is very important. It is also necessary to invite some experts on non-equilibrium system theories such as Professor Fang Fukang [2455 4395 1660] of Beijing Normal University. Of course, the Systems Science Institute of the Chinese Academy of Sciences is an important organization that has worked on problems in this area. In conclusion, it is to make natural sciences play an important role in economic management area and to accelerate the progress of management modernization through the cooperation of economists and natural scientists.

12922
CSO: 4008/244

NATIONAL POLICY AND ISSUES

FLOURISHING TECHNICAL MARKETS REPORTED

Beijing LIAOWANG [OUTLOOK WEEKLY] in Chinese No 4, 21 Jan 85 pp 32-33

[Article by Meng Xiangjie [1322 4382 2638]: "Technical Markets Are Flourishing; Bridges and Links--A General Survey of Technical Markets Nationwide"]

[Text] A new kind of trade market--the technical market--is springing up on Chinese soil. According to incomplete statistics from eight markets, Beijing, Wuhan, Shenyang, Dalian, Chongqing, Hangzhou, Xian and Chengdu, since 1981 a total of 31 large scientific and technical trade fairs have been held, a total of 19,000 scientific and technical achievements and technical service projects have been developed, 5,300 achievement sharing or technical cooperation contracts have been signed and the volume of business has reached 130 million yuan.

Since the 3d Plenum of the 11th CPC Central Committee, in the wake of both progress in restructuring the economic system and implementation of policies to stimulate the domestic economy and open China up to the outside world, scientific research departments and institutions of higher education in China are increasingly cognizant of the strategic importance of implementing the central authorities' policy that "economic construction must be based upon science and technology, and science and technology must be oriented toward economic construction." The crux of the matter is the question of how to transform the scientific and technical achievements we already have into productive forces, bring bridging and linking roles into play, orient scientific and technological work toward society and integrate science and technology with economic development. In this situation, the Shenyang Scientific and Technical Committee took the initiative in establishing a "Shenyang Scientific and Technological Services Corporation." Later, Wuhan, Beijing and other localities established similar organizations one after another. As of now, there are more than 1,100 scientific and technological development service organizations over localities and markets and there are more than 140 belonging to the various state ministries and commissions. In 1983 the "National Liaison Net for Scientific and Technological Service Cooperation Among Large and Medium

Cities" was also officially established with the support and guidance of the State Scientific Commission. The establishment of these organizations marked China's entrance into a new developmental period in the application and sharing of scientific and technological achievements, in the opening up of scientific and technological markets and in the training and interchange of skilled personnel.

Previously nobody placed sufficient emphasis on the spread and application of scientific and technological achievements in production. Now, scientific and technological achievements have moved into the economic and social domains in large volume and have thus produced enormous economic and social results. According to a Shenyang survey, the 1,500-plus projects for which scientific and technical contracts have already been completed have brought enterprise profits of more than 700 million yuan, saved more than 60 million yuan on the consumption of raw materials and energy, saved more than 5 million yuan in foreign exchange and brought new hope to 10 or 20 enterprises that have been operating at a loss for a long time. After the Beijing Center for the Interchange of Scientific and Technological Developments was set up in 1981, it brought the scientific and technological advantages of the Beijing area into full play. All sorts of technological forces were mobilized to develop scientific and technical undertakings, and institutions of higher education, research units, the relevant central government ministries and skilled technical and management personnel that were retiring or on leave were organized. Seven coordinative organizations, including the Beijing Corporation for Coordinated Scientific and Technical Development of Small Town Enterprises, the Beijing Navigation Science and Technology Development Corporation and the Beijing Center for the Development of Construction Technology were set up and four rather large-scale trade fairs were held to exchange technology and skilled personnel. Of these, the 4th trade fair, which was primarily intended to serve small town enterprises, brought more than 250 Beijing institutions of higher education and scientific research units into extensive contact with 10,000-plus small town enterprises. Contracts for more than 300 projects were established and these will have profound influences on the development of small town enterprises. In a period of something over a year, the Shanghai Center for the Exchange of Scientific and Technical Developments held eight fairs to exchange scientific and technical achievements in lasers, matrices, energy conservation and so forth. At the "Shanghai New Technology Trade Consultation Fair" alone, 684 agreements on technical cooperation, achievement sharing and advisory services were arrived at and the volume of business topped 18 million yuan. After these projects are realized they will produce notable social and economic results. For example, the "H-pattern special energy-saving fluorescent light" developed by Fudan University was shared with Shanghai's Lamp Bulb Plant No 3 and other units.

Based on the calculation of an annual output of 50 million fluorescent bulbs to replace incandescent bulbs, after operations are fully underway this may save 2.8 billion kilowatt-hours of electricity.

There are many forms through which scientific and technical achievements enter the marketplace: "science and technology trade fairs," "achievement popularization demonstration fairs," "coordinative scientific research and production organizations," "rural science and technology fairs" and so forth. Through these flexible and diverse organizational forms, technical consultations, technical services, plans and designs, patent transfers, public bidding to resolve difficult technical problems, supplies of samples and new products and other activities are launched extensively.

In developing lateral ties and bringing the superior aspects of composite multidisciplinary technologies into play, the scientific and technical markets have also played a role in the following areas: 1. They have promoted reforms in the scientific and technical system. Holding scientific and technical markets is in itself a kind of reform. In the wake of extensive development of this work, further assaults on the old management system will inevitably follow. After many localities have carried out successful scientific and technological transfers the scientific research personnel come to the forefront one after another. They have grasped production needs, which is helpful in problem selection and development, and they have simultaneously increased sources of income, improved scientific research conditions and brought vitality to the process. 2. They have promoted the transfer of military technology to civilian industries. The technological strengths of China's military sector are abundant, yet for a long time there has been little contact between this sector and the local economic sector. The technological service links have integrated military and civilian industries and directed them toward society. 3. They have brought the advantages of concentrated knowledge and skilled personnel available in institutions of higher education fully into play. Through their service to social and economic construction, institutions of higher education have promoted educational reforms in the institutions themselves and have accelerated the improvement of educational and scientific research levels. 4. They have spurred the integration of domestic development and introductions from abroad. 5. They have promoted the interchange and development of skilled personnel. In the wake of the extensive development of scientific and technical service work, the system of departmentalized ownership is inevitably breached. This promotes the reasonable flow of scientific and technical personnel from the cities to the countryside, from the large cities to medium-sized and small cities, from the interior to remote regions and from regions and sectors in which scientific and technological strengths are abundant to regions and sectors where they are weak and desparately needed.

12510

CSO: 4008/253

PROVINCIAL AFFAIRS

ECONOMIC, TECHNICAL COOPERATION SYMPOSIUM ENDS

SK042245 Jinan Shandong Provincial Service in Mandarin 2300 GMT 3 Apr 85

[Excerpts] The Shandong provincial symposium on economic and technical cooperation and trade exchanges concluded successfully on 3 April. At a press conference, Comrade (Yi Yu), responsible person of this symposium and chairman of the provincial council for the promotion of international trade, announced that the number of foreign guests attending this symposium was greater than ever before, the scale regarding cooperation items most extensive, and the talks on transactions unprecedentedly flourishing, as compared with similar symposiums held earlier in the province.

According to statistics, in a short period of 10 days, the province contacted foreign firms to discuss more than 600 economic and technical cooperation items, and the transaction volume reached $100 million. Meanwhile, contracts on 608 foreign trade and export items involving $64.29 million were signed, overfulfilling the plans. After implementing the policy of opening to the outside world, and particularly after opening Qingdao and Yantai cities to the outside world by building them into economic and technical development zones, the province has become much more attractive to various foreign countries and to traders in Hong Kong and Macao, and greatly aroused the interest and initiative of foreign traders in investing in and running plants in our province, organizing cooperation, and expanding trade exchanges. Many foreign traders arrived in the province to hold trade talks even before the beginning of the symposium. During the symposium, a continuous stream of foreign traders visited the symposium, and each day, the number of foreign traders visiting the symposium increased by 70, on the average. As of 2 April, a total of 780 foreign firms, involving more than 1,100 people from some 30 foreign countries and regions, had attended the symposium. Among these foreign traders were friends in economic and trade circles, and many enterprisers and bankers. They not only came to the symposium for purchases and sales, but also brought with them many investment, cooperative, and joint-venture projects. Among these foreign traders, there were also representatives of the (Baosheng) Bank in Hong Kong, the (Domestic Laborers' Bank) in Italy, the (German Bank), the (Zhuyou) Bank in Japan, and 16 other foreign banks and banking organs. They brought us data on more than 200 cooperative items. Some bankers expressed their desire to issue loans on favorable terms to the province. The Singapore (Shiji) Group plans to select a proper place in the province to exclusively run a four-star-class hotel with a total investment of $50 million.

This symposium covered an extensive scale of economic and technical cooperation with foreign countries, and witnessed much new progress in this regard. Compared with similar symposiums held in the past, the current symposium not only imported some advanced technologies and installations, but also imported some technology-intensive projects, technologies on basic production and basic parts in particular. The province also consulted and held trade talks with foreign traders on developing the comprehensive utilization of corn, precision processing of cottonseed oil, aquatic products breeding, processing of marble, the foodstuff processing industry, and the service industry, and signed many letters of intention, agreements, and contracts on importing technologies and installations and running cooperative and joint-venture enterprises.

This symposium witnessed great development in direct utilization of foreign capital. As of 2 April, agreements on 26 projects involving $13 million were signed. During the current symposium, the Shandong provincial branch of the China National Light Industrial Products Import and Export Corporation signed a contract with the (Jiale) Match Corporation, Ltd. In Hong Kong on establishing a plant in Hong Kong to jointly produce matches for use in advertisement. The units involved in this symposium consisted primarily of 500 medium-sized and small enterprises covering various trades in the province.

All this fully indicates the vast horizon and bright future of the province in expanding economic and technical exchanges and cooperative relations with various foreign countries and traders in Hong Kong and Macao.

CSO: 4006/525

PROVINCIAL AFFAIRS

ANHUI'S YANG JIKE INTERVIEWED ON TOWN-BUILDING

OW080359 Beijing XINHUA Domestic Service in Chinese 0900 GMT 6 Apr 85

[By reporter Zhou Lixian]

[Newsletter: People of Versatility Badly Needed for Building Towns--An Interview With Yang Jike, member of the CPPCC National Committee and vice governor of Anhui Province--date and place not given]

[Excerpts] Beijing, 6 Apr (XINHUA)--"To build small and medium-size towns is a stragic plan for China, and the key to the plan's success lies in the training of versatile people for the building of those towns." These are the succinct, lucid words of Yang Jike, vice governor of Anhui Province, when expressing his viewpoint. A professor of the University of Science and Technology of China, he made 10 proposals concerning the country's economic construction at the Third Session of the Sixth CPPCC National Committee. One of the proposals was "to train versatile people needed in economic construction in small and medium-sized towns."

He said, since China's institutions of higher learning make discipline divisions on a unitary basis, and students' aspirations are limited to a single discipline, and since training of academic experts occupies the dominant position, there is very little which can be done to train people of all-round ability, having both knowledge and vision, and able both to deal with changes and provide solutions to problems, people urgently needed for economic construction and social development. China's towns, where the economy is fast developing, lack such versatile people. If things continue in this way, the development of rural towns will inevitably be hindered, affecting developing of the urban economy.

According to the calculation of this specialist in mathematical statistics, within this century some 110 million laborers in China's rural areas will transfer from farming to other professions, and another 70 million youngsters will grow to be laborers of the right age. Divided evenly by the 60,000 towns in the country, this means each town will have to absorb 3,000 laborers. If there is an average of three versatile persons with college-level education in each of the 10 professions in the rural areas (planting, breeding, storage and preservation, processing, transportation, commerce and trade, information, scientific research, consulting and service), they will help

bring about social and economic prosperity by each offering guidance to 100 laborers. In this way, the income for the 3,000 laborers will not be any lower than when they work in the city. Everyone will live and work in peace and contentment, and there will be no rush on the cities. The disparity between the urban and rural areas will gradually disappear. On the basis of this calculation, he has concluded that China's 60,000 towns need 1.8 million of such versatile people. He said: "1.8 million is a large figure, and time is pressing. Based on a training completion rate of 60 percent, 300,000 good students will have to be enrolled each year in order to attain this goal by the end of the century."

As for the targets of this training, Yang Jike feels that they must be selected from among senior middle school graduates, who have returned to the rural areas, and who are good at running businesses and capable of providing leadership to a large number of other people. Their training will not increase the state's expenditure, because they are both willing and able to pay for tuition. Much less will they need the state's help in locating jobs, because they have their "golden ricebowl" and care not for the "iron ricebowl." As for the method of training, Yang Jike favors that by correspondence school.

CSO: 4006/521

PROVINCIAL AFFAIRS

REMARKABLE PROGRESS IN HUBEI'S ECONOMIC CONSTRUCTION

Wuhan HUBEI RIBAO in Chinese 2 Jan 85 p 1

[Article by Mao Zhenhua [3029 2182 5478]: "Five Breakthroughs Made by Our Province in Economic Construction"]

[Text] Our province made outstanding progress in its economic construction in 1984 which has just passed. People in the province have ushered in 1985 after making the following five brilliant breakthroughs:

Item: The gross industrial and agricultural output value exceeded the 50 billion yuan level and reached 51.5 billion yuan, an increase of 14 percent over last year, and more than the requirement of the Sixth 5-Year Plan. This rate of increase is higher than the average increase from 1979 to 1983 of 10.6 percent. This shows the historical progress made in the province's economy after the readjustment and restructing.

Item: The total grain output exceeded to 40 billion jin level and reached 45 billion jin, an increase of 13 percent over 1983. The situation of agriculture, which had been reformed ahead of other sectors, is improving every year. In 1984, the total agricultural output value increased by more than 14 percent over the previous year, and the increase was faster than in industry. This is a good phenomenon rarely seen since the founding of the People's Republic.

Item: The per-capita grain in the province exceeded the 900-jin level and reached 930 jin, more than the national average of just over 800 jin.

Item: The total cotton output of the province exceeded the 10 million dan level with a per mu output of more than 120 min and much better quality. The output was more than 1 million dan higher than in 1974, then the highest in history, even though the sown acreage was greatly reduced.

Item: The peasants' per capita net income exceeded the 300-yuan level and reached 377 yuan, an increase of 26 percent over the previous year (the price factor having been taken into account). The absolute amount of the peasants' income and the margin of increase are unprecedented.

In short, 1984 was a year of restructuring characterized by high rate of increase, fairly good economic results, and basically synchronized increases in output value, profits and state revenues.
9411
CSO: 4006/378

ECONOMIC DEVELOPMENT ZONES

BACKGROUND ON XIAMEN-ZHANGZHOU-QUANZHOU TRIANGLE

To Pioneer Open Policy

OW031125 Beijing XINHUA in English 0907 GMT 3 Apr 85

[Article: "Backgrounder on Newly Opened Coastal Zones"]

[Text] Beijing, April 3 (XINHUA)--The State Council has recently designated the Yangtze River and Pearl River Deltas, and the Xiamen-Zhangzhou-Quanzhou triangle to pioneer the implementation of the open policy, which has recently designated virtually all of China's coastal areas as regions for economic development using imported foreign funds and technology.

Following is background information on the three areas:

Covering an area of 50,000 sq km, the Yangtze River Delta, the largest in China, covers parts of Jiangsu and Zhejiang Provinces, and includes Shanghai, China's biggest industrial city. Known as "the land of fish and rice," the delta is equipped with convenient transport facilities. It is also one of China's best-developed areas and the largest foreign trade export center.

The Pearl River Delta in Guangdong Province, adjacent to Hong Kong and Macao, covers an area of 11,000 sq km. Endowed with a mild climate, abundant rainfall and fertile soil, the river delta is another of the best-developed areas in China.

The Xiamen-Zhangzhou-Quanzhou triangle in southeast Fujian Province is not far from Hong Kong and Macao, and faces the Province of Taiwan across the Taiwan Straits. The ancestral region of many Overseas Chinese, the area has the potential of being the hub of sea and air transport in the Asian-Pacific region.

Open Zones Speed Construction

OW040358 Beijing XINHUA in English 0327 GMT 4 Apr 85

[Text] Beijing, April 4 (XINHUA)--Construction is being speeded up at three newly-opened "triangle" economic zones to serve China's open policy, said local deputies attending the current National People's Congress session here today.

Each zone consists of a fairly developed economic area and an open city.

One is the 21,492-square-kilometer Pearl River Delta in central Guangdong Province. The second, the 50,000-square-kilometer Yangtze Delta, includes Shanghai and parts of Jiangsu and Zhejiang Provinces.

The third is the Minnan triangle embracing the cities of Xiamen, Zhangzhou and Quanzhou and the wide areas among them in south Fujian.

All three have convenient land, sea and air transport, well-developed agriculture, industry and commodity production and extensive contacts with the outside world.

Two of the triangular zones, in Guangdong and Fujian, also consists of special economic zones--Shenzhen and Xianmen.

Deputies urged the best use of their advantages to make them modern and prosperous zones combining industry and agriculture.

Medium- and short-range programs had been drawn up for development of the zones, they said.

Guangdong Governor Liang Linguang said the Pearl River Delta zone would strive to double its 1980 industrial and agricultural output value by 1990.

Key enterprises would reach advanced world levels of the early 1980s, and average per capita income would reach the equivalent of 800 U.S. dollars a year.

Fujian Governor Hu Ping said Minnan would fundamentally change its unitary and closed economy to a modern, multi-producing commodity economy.

The Yangtze Delta zone had made plans to suit conditions in Shanghai, Jiangsu and Zhejiang.

China's economic reform and open policies had first been tried out in special economic zones and gradually introduced to open cities and development zones, and then from the coast to the interior, the deputies explained.

The three triangular zones would link China with the rest of the world as import-export and business centers.

This would carry development prospects of both coastal and inland areas to unprecedented depth and scope, they said.

CSO: 4020/173

AGGREGATE ECONOMIC DATA

HAINAN PUBLISHES 1984 ECONOMIC STATISTICS

HK041129 Haikou HAINAN RIBAO in Chinese 16 Mar 85 p 2

["Communique on Statistics of the National Economy and Social Development for 1984 Released by the Statistics Bureau of the Hainan Administrative Region (13 March 1985)"]

[Text] In 1984, under the leadership of the provincial CPC committee and people's government and the regional CPC committee and people's government, the people of all nationalities in our region conscientiously implemented the CPC Central Committee's decision on spreading up the development and construction of Hainan Island, adhered to the policy of opening up to the outside world in order to promote development, and scored new achievements in all the sectors in the region's national economic and social development. The gross industrial and agricultural output value of the whole region reached 3,278 million yuan, 19.8 percent greater than that in 1983. Capital construction, focused on communications, energy, telecommunications and tourism accelerated, the region's external economic and trade work was enlivened, the number of projects introducing foreign technology and drawing in foreign capital and of projects of cooperation with other areas at home continued to increase, the financial revenue rose, the market was prosperous and enlivened, the prices of materials and goods dropped against a general background of stable prices, the living standards of our people continued to improve and new progress was made in the construction of spiritual civilization. However, we failed to achieve a satisfactory all-round balance, there was still a shortage of energy, some kinds of raw materials, and communications and transport facilities, and out economic results were not high enough.

The following is the communique on the implementation of the plans of the major national economic sectors:

1. Agriculture

In 1984, the development of our region's rural economic reform continued to deepen. As a result, the contract responsibility system with remuneration linked to output and with family management as the major form continued to be perfected, we gave full play to our peasants' initiative in conducting production, and a large number of various kinds of specialized households and economic combines emerged. There was an all-round bumper harvest in agricul-

ture, forestry, animal husbandry, sideline undertakings and fishery. The gross agricultural output value reached 2,167 million yuan, 6.7 percent in excess of the planned target and 15.5 percent more than that in 1983. The gross output value of agriculture (cultivation) was 685 million yuan, an increase of 12.4 percent over 1983, that of forestry was 962 million yuan, 13.5 percent more than that in 1983, that of animal husbandry was 238 million yuan, an increase of 9.9 percent over 1983, that of sideline undertakings was 222 million yuan, an increase of 44.2 percent over 1983, and that of fishery was 60 million yuan, an increase of 22.5 percent. The targets for the output of most crops were fulfilled or overfulfilled.

The following are the output of the major crops:

	1984	Percentage increase over 1983
Grain	2,818 million jin	6.7
Sugar cane	2.84 million metric tons	20.9
Oil crops	77.56 million jin	15.1
Vegetable	4,536,000 dan	22.7
Tea	79,000 dan	28.6
Fruit	890,000 dan	39.8

There was a relatively great development in the production of tropical crops. At the end of 1984, the total area of rubber farms reached 4,446,000 mu, an increase of 255,000 mu over that at the end of 1983. The output of dried rubber was 125,000 metric tons, an increase of 16.5 percent over 1983; that of cocoa nuts was 38.64 million, an increase of 20.9 percent over 1983; that of betel nuts was 3.13 million jin, an increase of 32.5 percent; that of coffee was 230,000 jin, an increase of 23.5 percent, and that of oil palm fruit was 1.18 million jin, an increase of 127 percent over 1983.

As we have relaxed the forestry policies and implemented the forestry production responsibility system, the work of afforestation continued to develop. In 1984, 786,000 mu of land were afforested; quick-growth and high-yield trees were planted on 151,000 mu of the afforested land, an increase of 23.5 percent over 1983.

There was a relatively great increase in the output of pork, beef, mutton, poultry and eggs, but the number of pigs in hand dropped.

The output of major livestock products and the number of animals are as follows: [see following page]

Fishery production continued to rise. In 1984, the output of aquatic products was 82,000 metric tons, an increase of 8.8 percent over 1983.

The number of major farm machines in hand increased. At the end of 1984, the power of the region's farm machines totaled 1,286,000 horsepower. There were 4,156 large and medium-sized tractors, 15,966 small tractors and 3,731 farm trucks. The region used 236,00 metric tons of chemical fertilizer, an increase

of 47.7 percent. Rural electricity consumption totaled 39.81 million kilowat-hours, an increase of 9.6 percent over 1983.

	1984	Percentage of increase over 1983
Total output of pork, Beef, and mutton	1,493,000 dan	11.6
Poultry and eggs	171,000 dan	54.9
Fowls in hand	22,242,000	18.8
Cattle in hand	1,022,000	5.2
Pigs in hand	2,541,000	-0.5
Sheep and goats in hand	269,000	5.0

In 1984, the weather stations in the region strengthened their cooperation in scientific research and disaster prevention work, gave relatively timely and accurate forecasts of major disasters such as drought, typhoon and frost, and thus played a positive role in serving agriculture and other trades.

2. Industry

In 1984, the region's industrial production developed more quickly in the midst of readjustment and reform. Through "drawing in technology and capital from abroad and cooperating with other areas at home" and through technological transformation, some enterprises have achieved better economic results. The total gross industrial output value of the region was 1,111 million yuan, an increase of 29.1 percent over 1983. That of light industry was 738 million yuan, an increase of 39.3 percent over 1983 and that of heavy industry was 373 million yuan, an increase of 12.9 percent.

The sector owned by the whole people contributed 977 million yuan to the region's gross industrial output value, 28.5 percent more than that in 1983, while the collective industrial sector put an end to 6 years of continuous decline and yielded 130 million yuan of output, 31.5 percent more than that it did in 1983.

The region fulfilled or overfulfilled the year's targets for most of the 40 major industrial products, and the output of 32 of them increased over that 1983.

The following was the output of major industrial products: [see following page]

There was some increase in industrial economic results. The sales of all the region's local state-owned industrial enterprises included in the budget totaled 466 million yuan, 12.6 percent more than last year. These enterprises' realized profits totaled 22.65 million yuan, 510 percent more than that in 1983. The number of enterprises that suffered losses dropped 17.3 percent compared with that in 1983 and the amount of their total losses decreased by 48 percent and the productivity was up by 14 percent over 1983. However, as the prices of some raw materials increased, the comparable costs of our products rose by 0.86 percent over 1983. The percentage of the enterprises that suffered losses was still relatively great and we still had very great potential to tap in raising the economic results of our industry.

	1984		Percentage of increase over 1983
Iron ore	4,412,000	metric tons	10.5
Pig iron	12,000	metric tons	- 9.6
Electricity	729	million kilowatt-hours	6.8
Coal	20,000	metric tons	-19.6
Tires	152,000		5.5
Walking tractors	1,676		19.7
Television sets	107,000		--
Radio cassetts recorders	20,000		--
Electronic watches	317,000		--
Computers and calculators	30,000		--
Cement	316,000	metric tons	19.5
Timber	119,000	cubic meters	- 9.0
Cotton cloth	5,023,000	meters	-22.7
Sacks	500,000		34.6
Machine-made paper	4,166	metric tons	53.4
Soap	6,008	metric tons	16.1
Matches	100,000	packets	-31.4
Cigarettes	1,617	boxes	194.0
Salt	234,000	metric tons	0.3
Sugar	201,000	metric tons	18.0
Cans	9,485	metric tons	6.0

3. Fixed asset investment and construction.

In 1984, in the field of construction, the whole region further implemented the principle of concentrating our strength to strengthen the construction of key projects and achieved relatively great progress. The units owned by the whole people completed 740 million yuan of investment in fixed assets, an increase of 65.2 percent over 1983; the units owned by collectives in our urban and rural areas completed 31 million yuan of investment; and peasants and urban residents invested 135 million yuan in building residential buildings.

Of the fixed asset investment in the units owned by the whole people, 490 million yuan or 66.2 percent was invested in construction of production nature, 60.6 percent more than that in 1983; and 250 million yuan or 33.8 percent was invested in construction of a nonproduction nature, 75 percent more than that in 1983.

Of the fixed asset investment in the units owned by the whole people, 580 million yuan of investment in capital construction projects was completed, an increase of 77.4 percent over 1983. The state's investment in these projects rose by 37.4 percent and the investment raised by local people rose by 89.9 percent. An investment of 160 million yuan was completed in the projects related to technological measures, 32.4 percent more than that in 1983.

The construction of 24 key construction projects which were mainly projects related to communications, energy, telecommunications and tourism was quickened. In 1984, 185 million yuan of investment in these projects was completed, which constituted 92.5 percent of the planned target. Among these projects, the projects of the construction of Nandu Jaing Bridge and Haikou Airport, the extension of Haikou Port, and the construction and extension of sugar refineries were completely or partially completed and put into operation.

Through the projects of capital construction and technological transformation, 500 million yuan of fixed assets was newly added to the units owned by the whole people. The rate of fixed assets delivered for employment was 66.6 percent, an increase of 5.9 percent over 1983.

Major new production capacity and facilities are: a newly-built highway bridge 784 meters long; a major runway in an airport being extended by 250 meters; a barge dock 150 meters long, a passenger dock 160 meters long; a capacity to process 3,250 metric tons of sugarcane a day in newly-built and extended sugar refineries; the capacity of brewing 5,000 metric tons of beer a year, a television set assembly line that yields 280,000 television sets a year; 17,500 square meters of tourist guesthouses and hotels; and 12.2 kilometers of newly-built or extended roads in urban areas.

There was some improvement in the results of capital construction investment but the construction periods of quite a few projects were too long and their costs were on the high side.

4. Communications, transport, post and telecommunications

The total volume of social cargo freight of the whole region in 1984 was 35.5 million metric tons, an increase of 42.6 percent over 1983. As the vehicles owned by enterprises and institutions increased day by day, the percentage of cargo carried by these units themselves increased and this relatively reduced the volume of freight consigned to the departments specialized in communications and transport. The volume of cargo freight of these departments was 5.63 million metric tons and the total turnover was 450 million metric ton-kilometers, an increase of 2.4 percent and a drop of 2.3 percent over 1983 respectively. Those related to railways increased by 6.1 and 5.8 percent respectively; those related to waterway transport dropped by 4.6 and 6.5 percent respectively.

In 1984, the departments specialized in communications and transport of the whole region recorded a volume of passenger freight of 41.09 million people and a passenger freight turnover of 1.75 billion person-kilometers, respectively an increase of 15.5 and 17.2 percent over 1983. Those related to railways respectively dropped by 8.8 and 8.4 percent; those related to highways respectively increased by 16.2 and 17.3 percent and those related to waterway transport rose respectively by 14 and 31.9 percent.

The total turnover of the post and telecommunications industry rose by 11.5 percent over 1983 and amounted to 12.22 million yuan, of which that related to letters rose by 5.8 percent; that related to newspapers and magazines

rose by 8.6 percent; that related to telegrams rose by 2.4 percent; and that related to long-distance telephone calls rose by 42.5 percent.

The economic results of communications and post and telecommunications departments improved. But these departments remained a weak link in the whole region's national economy. The problem of the transport to areas outside the island in particular urgently needs a solution.

5. Domestic trade

In 1984, the urban and rural market in the whole region prospered with active purchases and sales and there was a relatively big increase in the social commodity purchasing power. The purchases of commodities by the state-owned commerce and the supply and marketing cooperatives in the whole region totaled 460 million yuan, an increase of 14.4 percent. The social commodity retail sales totaled 1.82 billion yuan, an increase of 26.1 percent. The retail sales by the sector owned by the whole people rose by 7.8 percent, those by the collective sector rose by 3 percent, and those by the individual sector rose by 109 percent. The total turnover of the trade in urban and rural fairs totaled 470 million yuan, an increase of 19.5 percent.

There was a marked increase in the supply of fish, meat, poultry, eggs and vegetables in the market in various areas; and the variety of industrial commodities increased. The social retail sales of most of the major consumer goods increased during last year: The commercial departments and supply and marketing cooperatives sold 330 percent more television sets, 150 percent more radio cassette recorders, and 230 percent more washing machines than they did in 1983.

The prices in our market dropped against a general background of stable prices. According to price department statistics, the general index of retail prices of social commodities dropped by 1.6 percent. The index of listed retail prices of state-owned commerce rose by 1.7 percent, the price index of commodities sold at negotiated prices dropped by 11 percent, and the fair trade price index dropped by 6.2 percent. However, the price index for the living costs of the staff and workers in Haikou City rose by 2.7 percent over 1983.

6. Foreign economic relations and trade, and tourism

In 1984, our external economic and technological cooperation developed relatively quickly. Throughout the region a total of 122 contracts for joint ventures, cooperation, and compensation trade were signed, 96 more than those signed in 1983. The total amount of investment stipulated in the contracts amounted $180 million, an increase of 770 percent over 1983, of which $120 million was foreign capital that the region utilized by these contracts, an increase of 880 percent over 1983. Most of the foreign capital was used in investment in construction of a production nature, importing advanced technology, and developing tourism.

In 1984, the purchases of commodities for foreign trade totaled 170 million yuan, 94.3 percent more than that in 1983. The above-plan purchases of

commodities rose by 806 percent over 1983. The value of commodities exported through Haikou Port totaled $41.13 million, 141 percent more than that in 1983.

As the policy of opening up to the outside world was implemented, tourism developed relatively quickly. In 1984, the whole region received 43,000 foreign, Overseas Chinese, and Hong Kong, Macao and Taiwan tourists, 34.4 percent more than it did in 1983. Among these tourists, 3,539 were foreigners, 110 percent more than in 1983.

7. Science, education and culture

In 1984, throughout the region new achievements were scored in scientific and technological research work. Through recruiting talented people from other areas, the region's technical workforce was expanded. Throughout the region, the units owned by the whole people employed a total of 31,000 natural science and technical workers.

In 1984, there was new development in education. The number of students studying in the higher education institutes in the region totaled 3,763, 709 mor than in 1983; the number of those studying in adult higher education institutes (including television universities, spare-time universities, staff and workers universities and education institutes) totaled 2,508,780 more than in 1983; the number of those studying in technical and vocational middle schools totaled 2,944, 739 more than in 1983; the number of those studying in ordinary middle schools totaled 281,000, 25,000 more than in 1983; and the number of those studying in primary schools totaled 865,000, 18,000 more than in 1983.

In the process of building socialist spiritual civilization, new achievements were scored in cultural, press and radio and television broadcasting undertakings. In 1984, there were 26 artistic performance units which gave 3,200 performances. The region had 19 cultural clubs, 19 public libraries, 2 radio broadcasting stations, 2 television broadcasting stations, and 3 television relay stations above the capacity of 1,000 watt each. In the whole year, 113 million newspapers were published, 29.69 million more than that in 1983.

8. Public health and sports

In 1984, the medical and public health organizations throughout the region had 18,600 hospital beds and employed 26,600 professional medical workers, and increase of 3 percent over 1983. As the patriotic health campaign was carried out in a widespread manner, the incidence of some diseases dropped.

The sports undertaking developed vigorously. In 1984, 149 sports meets of various kinds were held in the whole region, in which 34,000 athletes participated. Our region's athletes won 7 gold and 4 silver medals in international contests, and 92 gold and 63 silver medals in national and provincial contests. They broke two Olympic and 7 national records.

9. People's livelihood

In 1984, as production developed, the living standards of our urban and rural people continued to improve. According to a sampling survey of the income and expenditure of 1,514 peasant families of various economic categories in various counties and cities all over the region, the per capita net income in the region was 340 yuan, an increase of 39 yuan or 13 percent over 1983. According to a sampling survey of the income and expenditure of 50 families of staff and workers in Haikou City, the average per capita income to cover living expenses is 659 yuan, an increase of 65 yuan or 10.3 percent over 1983 and a real increase of 7.9 percent after inflation adjustment.

In 1984, the region provided 40,500 permanent and contract jobs for staff and workers in the units owned by the whole people, of which 4,000 jobs were given to college and technical and vocational school graduates under the unified placements of the state and 36,500 were given to job-awaiting youths and other people.

In 1984, there were a total of 954,000 staff members and workers throughout the region, among whom 859,000 [as published] worked in collective units (including supply and marketing cooperatives which were switched from being units owned by the whole people to being collective units). At the end of 1984, there were 29,000 individual laborers in cities and towns.

As the number of staff and workers increased, and in addition, as many enterprises implemented the piece rate wage and reward system, the region's staff and workers earned a total of 869 million yuan of wages in 1984, 115 million yuan or 15.3 percent more than they did in 1984. Of this amount, 792 million yuan was the total wages of the staff and workers in the units owned by the whole people and eas an increase of 11.5 percent over 1983. The average wage was 940 yuan, 117 yuan more than that in 1983. The total amount of wages of the staff and workers in collective units was 76.58 million yuan, 32.78 million yuan or 74.8 percent more than that in 1983. This meant that the average wage was 830 yuan, 159 yuan more than that in 1983.

In 1984, the balance of the bank deposits of urban and rural people totaled 906 million yuan, 271 million yuan or 42.7 percent more than that in 1983.

In 1984, the new residential housing area built by the units owned by the whole people totaled 1,128,000 square meters, 48.6 percent more than that in 1983. The urban and rural collective units built 46,000 square meters of new residential housing area and our peasants and urban and rural people built 1,782,000 square meters of new residential buildings on their own, 34,000 square meters more than in 1983.

10. Population

In 1984, the whole region's population was 5,893,000 people, 87,000 people or 1.5 percent more than that at the end of 1983. Relatively satisfactory achievements were scored in the work of family planning. The birth rate was 1.76 percent, the death rate was 0.41 percent and the natural population growth rate was 1.34 percent.

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ECONOMIC MANAGEMENT

TASK OF NATIONAL ECONOMIC MANAGEMENT DETAILED

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[Article by Pei Yuanxiu [5952 0337 4423] and Zhang Xishan [1728 6932 1472]: "The Task of National Economic Management"]

[Text] Based on the demands of objective economic and natural laws and staring from the three areas of regulating production relations, reforming the superstructure and rationally organizing the productive forces, the task of socialist national economic management is to correctly handle all relationships in national economic development, ensure the proportional development of the national economy, promote the successful accomplishment of socialist expanded reproduction, achieve the best economic results with the least consumption and improve the people's material and cultural lives.

The task of socialist national economic management is very complex and difficult. Based on scientific predictions, it must propose social and economic development goals geared to China's actual circumstances, on one hand; it must also carry out organization work to realize these goals, on the other. The task of socialist national economic management specifically includes five main points: determining social and economic development goals; formulating and implementing national economic plans; establishing an economic management system suited to China's distinctive characteristics; using all management methods to organize and coordinate economic activity; promptly regulating and supervising the national economy.

I. Determining Social and Economic Development Goals

Determining social and economic development goals is the most important task of socialist national economic management. Social and economic development goals stipulate national economic development directions and production standards to be achieved within a suitable period of time and plan the extent of improvement of the material and cultural lives of members of society. They thus restrict the overall situation and are of strategic significance. Scientifically determined social and economic development goals establish direction signs for national economic management activity, on one hand, and develop blueprints for happy future lives for the people, on the other.

A. The Significance of Determining Social and Economic Development Goals

Social and economic development goals refer to the degree of development expected to be achieved by national economic management activity within a specific period of time. All management activity must thus be carried out focused on them.

1. Economic Development Goals Restrict the Direction of Production Development

Economic development goals include the two areas of the standards to be achieved by the productive forces and the degree of improvement of production relations within a specific period of time and restrict the general direction of socioeconomic development.

In order to enable social production development to achieve the demands of economic development goals, the productive forces should first be spurred to achieve predetermined demands. While investing in rational distribution of the productive forces and regulating branches of the economic structure, we must thus formulate correct technical and economic policies, encourage the use of new technology and materials, increase fuel and power sources, train and replenish the labor force and, based on new and advanced technology, enable social production to develop proportionally and in a planned way. We must then step by step and in a planned way improve production relations and reform the superstructure on a nationwide scale and establish an economic management system suited to the level of the productive forces and China's distinctive characteristics.

2. Social Development Goals Are Blueprints To Improve the People's Material and Cultural Lives

Social development goals refer mainly to goals such as population, labor, social welfare, scientific education, health, physical culture and environmental protection. Politics, ideology, moral concepts and theoretical relations are also broadly included in social goals.

In socialist national economic management, both economic and social development goals must be determined. This is because the goal of developing the socialist economy is to improve the people's material and cultural living standards and this can only be realized on the basis of developing the economy. Due to the influence of the "left" guiding ideology in the past, economic development goals were stressed and social development goals neglected when formulating long-range plans, production for production's sake was practiced consciously or unconsciously and the demands of basic socialist economic laws were violated. This caused population control, scientific education developments, social welfare increases and environmental protection to lack essential planning and measures and created many social problems which appeared later and were temporarily difficult to solve. Based on assimilating historical experience and while proposing the strategic economic development goal of quadrupling the gross annual output value of industry and agriculture, the 12th CPC Party Congress also proposed the general social development goal of enabling the material and cultural lives of people throughout the country to

achieve comfortable levels by the end of the century. In order to realize this social development goal, China has pointed out the need to keep population growth under 1.2 billion during this century, demanded that national income reach $800 per capita and planned related goals to develop science, culture, education and health.

B. The Basis for Determining Social and Economic Development Goals

Social and economic development goals should be proved and determined on the basis of scientific predictions and must absolutely not be dealt with carelessly nor high goals be determined based on subjective wishes.

The level which can be reached by social and economic development is restricted by a series of objective factors, and social and economic development goals must thus be objective and be able to reflect the objective requirements of economic and social development and the distinctive characteristics of each socialist country. But social and economic development laws can be understood. Social and economic development goals determined through people's predictions and scientific proofs also reflect the people's demands. In order to propose correct social and economic development goals based on understanding and using economic and natural laws, proceeding from China's existing resources and technical forces and based on the productive forces which can be increased by actively improving management, improving technology, increasing investment and tapping resources, it is thus necessary to propose through planning positive and reliable strategic goals and all major economic and social development goals.

The key to whether social and economic development goals are scientific is whether they are scientifically predicted and proved. This is because only goals which are determined through scientific predictions and proofs are correct ones which unify objective possibility and subjective activity, encourage the masses to work hard for the prosperity of the country and can be realized through striving.

II. Formulating and Implementing National Economic Plans and Organizing Overall Balance

Formulating and implementing nation economic plans is another major task of socialist national economic management. It is the major means of realizing social and economic development goals. Most organizational activity of a socialist state in managing its national economy is carried out through formulating and implementing long-, medium- and short-range plans. All types of national economic plans are the basis and foundation of all management organs and business activity. Planned management is thus the central link and the most difficult task of national economic management.

A. Planning Is the Way to Realize Social and Economic Development Goals

Social and economic development goals are a long-range idea nad socialist states mainly realize long-range ideas through formulating and implementing long- and medium-range strategic plans and short-range tactical ones and enabling them to be carried out gradually and by stages.

1. Long-Range Plans

Long-range plans generally refer to plans of a decade or two or even longer periods of time. Based on the strategic goal of overall development, long-range plans specifically plan stages and measures to realize this strategic goal.

Based on analyzing objective conditions and technical progress trends, the major tasks of long-range plans are to predict national economic development, determine development strategy and goals, determine major proportional relations and distribution of the productive forces and formulate major economic and technical policies.

Many special plans are also closely related to long-range ones. Special plans include special departmental and regional ones. China now stresses the following special plans: agricultural development plans, science and technology development plans, resource development plans, special talent training plans, plans for the technical transformation of important trades and regional development plans.

2. Medium-Range Plans

Medium-range plans generally refer to 5-year plans, which are the major form of national economic planning. They are formulated on the basis of long-range plans and are the particularization of long-range plans and the guarantee of implementing them. The planning period for medium-range plans is of relatively moderate degree, being neither long or short; based on current conditions, they can quite accurately predict many subjective and objective factors affecting economic development, enable long-range plans to be carried out based on careful calculations, regulate the national economic structure step by step for a 5-year period and enable the national economy to further develop according to planned proportions, thus enabling breakthroughs to be made on certain major problems.

Medium-range plans are of strategic significance but are much more specific than long-range ones and have important practical significance. The major tasks of medium-range plans are to determine economic growth rates and major proportional relations, do a good job of planning period balance for finance, credit, goods and materials, foreign exchange, markets and labor, determine goals for investment scope and improvement of economic results, determine medium- large-scale and complete projects, control population growth, stipulate the extent of improvement of the people's material and cultural lives and plan resource use and environmental protection. They should also propose annual goals for the above items, determine major economic and technical policies for the planning period and propose corresponding measures.

3. Short-Range Plans

Short-range plans are annual plans. Short-range plans are the particularization of medium-range ones and plans for directing the current year's social and economic development.

The major tasks of short-range plans are to implement the current year's goals stipulated by the 5-year plan, do a good job of organizing overall balance of the current year's national economy and correctly formulate and implement planned policies and measures.

The above three types of plans must dovetail, the proportional relations of all plans must be coordinated and essential regulation and revision must be carried out in their implementation process in order to ensure that all types of national economic plans are continuous and scientific.

B. Establishing a Planning System Which Conscientiously Uses the Law of Value

Socialist society must vigorously develop commodity production and exchange. The full development of a commodity economy is an unavoidable stage of socio-economic development.

The socialist planning system should be one combining unity and flexibility. This is because the major socialized production links in socialist society are very complex and a crisscross network; market changes are very rapid and demand a sensitive response from the production rate. Planning, therefore, cannot be relied on for everything and it is difficult and impossible to bring all economic activity into line with planning; if planning is overmanaged or managed too meticulously, it may instead create a slow response in market changes and form "consistent controls" on products for decades. Especially considering the actual conditions that China's territory is vast and our population numerous, that the situation of communications being inconcenient, news being slow and economic and cultural development being very imbalanced is very difficult to completely change in a short period of time, that China's present commodity economy is still very undeveloped and that commodity production and exchange must be vigorously developed, the need to establish this kind of planning system is even more pressing.

In managing the socialist national economy, the two measures of planned regulation and market regulation can be used. Planned regulation is using all planned goals to make planned arrangements for the development of economic activity. The major tasks of planned regulation are to solve the following problems: general social supply and demand balance, development goals and major proportional relations, the distribution of the productive forces and key construction. Proceeding from the needs of the whole society, based on grasping and analyzing foreign and domestic economic, scientific, technical and social information and according to the demands of the law of value, socialist countries can carry out overall planning through planned management, make comprehensive arrangements, solve all problems in developing production and realizing modernization, improve socioeconomic results and accelerate the pace of development. Market regulation is regulating commodity production and marketing through the spontaneous role of the law of value and enabling national economic development to conform to the needs of society and the people. The major tasks in using market regulation are to solve the numerous linkage problems in commodity production, supply and marketing, spur enterprises to carry out technical transformation, strengthen cooperation between all economic units and improve management and administrative standards.

C. Upholding Overall National Economic Balance Is the Key to Planned Management

Comrade Chen Yun has said that "So-called overall balance is proportional and proportional is balanced." Upholding overall balance is the key to grasping planned management.

The national economy is an organic whole. All links between social reproduction and economic sectors are closely connected and interact with each other. This requires that all parts of socioeconomic development plans and the determination of their goals dovetail and be consistently coordinated. Only by maintaining overall national economic balance can expanded reproduction be successfully realized, redundancy be avoided and good economic results be achieved.

The basic tasks of realizing overall national economic balance are to properly arrange the major proportional relations of national economic development and to enable the complex economic relations of all departments, links and regions to be coordinated. But since the number of proportional relations in the national economy are too numerous to mention individually, it is difficult to include all balanced relations in planning nor can all specific relations be reflected. Priorities must thus be stressed in formulating plans and mainly balanced relations in the following three areas: balanced relations concerning the overall national economy and restricting all economic activity; balanced relations which can summarize and reflect the complete picture of social reproduction; balanced relations which reflect the party's central tasks for a specific period of time. In the process of implementing national economic planning, good balance work should be done in the two areas of the value and the material object forms of national income distribution. Finance, credit, goods and materials and foreign exchange balances must be specifically mastered. Of these, upholding financial balance is most important. Unified balance of finance and credit shows that the value form of national income distribution is balanced; provided the value form of national income distribution is balanced, the relationship between social purchasing power and goods and materials supply will also be generally balanced. Foreign exchange balance is supplemental to financial, credit and goods and materials balance.

III. Establishing an Economic Management System Suited to China's Distinctive Characteristics

A. The Concept and Transformation of the National Economic Management System

The national economic management system is the system established in socialist countries of managing the national economy through improving production relations and reforming the superstructure based on the development demands of the productive forces. It includes the organization and management forms, management jurisdiction divisions and management organ installations of all sectors and regions of the national economy and involves relations between the center, localities, enterprises and workers, between planned and market regulation and between economic and administrative measures.

The national economic management system established by the Soviet Union after the October Revolution was a highly centralized one. China basically followed this system after liberation. Since the highly centralized national economic management system was overunified and overmanaged, the economic components overunified, enterprise production management initiative too limited and the ability to meet emergencies poor, it was thus unsuited to the standards of the present stage of development of the productive forces, created disjointedness between production and markets and low productivity and obstructed the full development of the superiorities of the socialist system.

Faced with these system abuses, China carried out several reforms since the end of the 1950's, the general spirit having been to reform the abuses of overcentralization. But since reform principles and directions were unclear, the predicted goals could not be achieved. The Third Plenum of the 11th CPC Central Committee indicated that China has entered a new stage of seeking, exploring and establishing a national economic management system having distinctive Chinese characteristics. Proceeding from the viewpoint that economic theory has broken through the idea long confining people's ideology that the means of production are not commodities, the objective necessity for socialism to vigorously develop a commodity economy has been quite fully demonstrated in this stage. While fully affirming the superiority of the socialist planned economy in the practice of national economic management, we have thus transferred management jurisdiction to a lower level, corrected the abuses of overcentralization, highly stressed the use of economic levers and emphasized development of the role of the law of value.

B. Establishing a National Economic Management System Suited to China's Distinctive Characteristics

China is a socialist country with a population of a billion people. We must build a national economic management system based on this reality. In order to build a management system suited to China's distinctive characteristics and based on the results achieved by our economic system reforms of the past few years and the still existing problems, the following points must be accomplished:

1. Guided by the State-Run Economy, Allowing a Diversified Economy to Coexist

This is determined by the fact that the standards of China's present stage of productive forces are low and our commodity economy is not developed. Permitting a diversified economy to coexist is a major item in doing a good job of China's economic system reform. China's present allowing of foreign capital to come into the country to run independently funded enterprises and our allowing of domestic private management to exist is in order to use them as a supplement to the socialist economy. This will be favorable to the development of China's socialist economy.

2. Establishing a Classified Policymaking System Taking Central Policymaking as the Major Factor and Combining the Center, Sectors, Regions and Enterprises

China is a large socialist country with imbalanced economic development and our national economic development problems must be distinguished by size and completely solved by the center. The center can thus only handle major administrative policy and the rest should be handled by classified management. Under the principle of unified leadership and classified management, only by establishing a classified policymaking system, giving economic organizations at all levels the proper jurisdiction and responsibilities, making their duties, rights and interests consistent and arousing their enthusiasm can all complex national economic development problems be perfectly solved and the whole national economy be well managed. The reforms of the past few years have gradually expanded the economic management authority of localities, sectors and enterprises and increased their responsibilities; this has benefited the center in concentrating its forces to study, make decisions and direct the overall situation. In order to better solve the problem of combining bits and pieces and to enable economic development not to suffer from manmade, piecemeal isolation, we are now studying and solving the problem of developing the role of cities, and especially central cities, enabling them to become centers for organizing economic activity.

3. Reforming the Planning System and Building a Planning System Combining Unity and Flexibility

The disadvantage of overmanagement has existed in China's planning system in the past. Without reforming the planning system, the economy cannot be invigorated. We must suitably reduce the scope of ordered planning step by step and suitably expand that of guided planning. For that part of major products related to the national economy and the people's livelihood which must be allocated and distributed by the state and for major economic activity related to the overall situation, we should carry out ordered planning; for most other products and economic activity, we should separately carry out guided planning or allow total market regulation according to varying conditions.

4. Smashing Egalitarianism, Doing a Good Job of Product Distribution and Doing a Better Job of Implementing the Principles of Material Interests and Distribution According to Work

Egalitarianism in the area of distribution has long seriously obstructed China's economic development. Smashing egalitarianism and carrying out distribution according to the principles of material interest and distribution according to work are the major items in establishing a national economic management system suited to China's distinctive characteristics. Carrying out the joint production planned reward job responsibility system in rural areas has greatly aroused the production and management enthusiasm of the masses of peasants and enabled agriculture to make rapid developments. While establishing all economic responsibility systems, the major task in the present urban economic system reform is the need to smash egalitarianism, thoroughly change the conditions of the same treatment being given for good or bad enterprise management and for staff members and workers who do a lot of work or those who do

little and to ensure that enterprises do not eat out of the state's "big pot" or staff members and workers out of the enterprise's "big pot." In the distribution relations between the state and enterprises, we must both ensure the steady growth of national revenue and enable enterprises to have definite financial resource guarantees in management, administration and development. Based on the first step of substituting taxes for profits, we must carry out the second step of substituting taxes for profits and enable the distribution relations between enterprises and the state to be basically solved.

5. Reforming the Circulation System, dredging Circulation Channels and Enabling Goods to Circulate Freely

Under the conditions of the past commodity economy being undeveloped, China's present commercial system was formed in the process of transforming capitalist and private commerce into socialism. This system has not been able to adapt to present economic conditions. Based on the principle of taking the planned economy as the major factor and market regulation as a supplement, adapted to the needs of vigorously developing commodity production and exchange and in line with the spirit of promoting production and serving the people, we must, thus, change the former commodity circulation system which was divided by administrative districts and in which administrative levels practiced unified procurement and supply into an open type circulation system with many channels and few links, form a circulation network of unimpeded circulation between town and country and regional exchange crisscrossing and extending in all directions and develop socialist unified markets.

IV. Using All Management Methods To Organize and Coordinate National Economic Activity

One of the tasks of socialist management of the national economy is to decide on the use of certain or diversified management methods based on varying conditions, realize management functions and guarantee the demands of the national economy in achieving development goals and plans. The nature and style of exerting influence on management targets based on the contents of socialist economic management methods can be roughly divided into the following: administrative, economic, political, ideological, educational, legal and modern scientific and technical methods. These various methods complement each other with economic and administrative methods being the basic ones.

A. The Characteristics and Role of Administrative Methods

Administrative methods rely on administrative organization and authority and use administrative measures based on administrative styles to manage the economy. Relying on the authority of administrative or management organs at all levels, using the style of administrative orders or directly assigned tasks and based on the administrative divisions and levels of national administrative organs, they are specifically methods of classified management of the national economy. Administrative management characteristics are that they rely on authority and coercion.

The use of administrative methods plays an important role in managing the national economy under socialist conditions and this role cannot be replaced by the use of other methods. This role is: to be able to ensure socioeconomic centralization and unity; to be able to directly control the production of products related to the national economy and the people's livelihood and correctly arrange major national economic proportional relations; to regulate economic activity in all departments and regions and ensure the development of economic cooperation throughout the country; to benefit prompt revision of plans, change imbalances in major proportional relations and ensure the successful accomplishment of social expanded reproduction.

But socioeconomic activity is complex and contact between all production units, rational links between production, supply and marketing, the establishment of specialized production and the rational flow of transportation are not all carried out according to administrative systems, divisions and levels. Casually using one administrative method to manage all economic activity may create piecemeal division, cut off the inherent contacts between economic activity and obstruct the smooth carrying out of commodity circulation. Since administrative methods use authority and coercion, the casual and excessive use of them can also cause abuse of power by leading organs and leaders, blind commands, neglect of economic accounting and engaging in egalitarianism. This is unfavorable in arousing the enthusiasm of enterprises, staff members and workers and may encourage bureaucracy. China has had many lessons in this area. Special attention must thus be paid to using economic methods in the present economic system reforms.

B. The Characteristics and Role of Economic Methods

Economic methods are management methods relying on economic organization, using economic measures and based on material interests of arousing the enthusiasm of production managers in order to realize economic goals. Their major characteristics are the use of economic interests to regulate production and circulation in order to develop production, satisfy needs and realize the needs of national planning.

The use of economic methods to manage the national economy is a major guarantee of invigorating the economy and a key item in the present reforms. The role of these methods is principally divided into the following points:

1. Based on material interests, to be able to arouse the enthusiasm of economic organizations and workers at all levels and to benefit the early realization of socioeconomic development goals;

2. To be able to regulate all areas of antional economic relations flexibly and with initiative through the national use of economic levers such as tax revenue, prices, credit and wages;

3. To be able to forcefully spur enterprises to lower consumption and improve economic results.

Since economic methods guide and promote economic activity based on material interests, if they are not used well, they may weaken people's sense of responsibility toward social and state interests, can engender localism and decentralization and are likely to encourage the tendency to only pay attention to partial interests.

The two basic administrative and economic methods each have their advantages and disadvantages and in actual work, it is necessary to combine them with other methods and use them comprehensively in order to learn from strong points to offset weaknesses. China has excessively used administrative methods in its past management of the national economy and must now stress and pay attention to using economic methods, enabling the two to be well coordinated.

C. Diversified Economic Management Methods Must Be Comprehensively Used

All economic management methods have their distinctive characteristics and roles and we should be good at comprehensively using diversified management methods.

Political, ideological and educational methods are national economic management methods of persuading and educating the masses of workers. They can raise the political consciousness of workers, strengthen the conscientious carrying out of party principles and policies, benefit development of the socialist spirit and civilization and resist capitalist ideological corruption.

Legal methods of national economic management are realized through economic legislation and judicature. They are coercive. These methods are a supplement and essential guarantee in carrying out regular administrative and economic management.

Modern scientific and technical management methods are economic management methods using the results of advanced sciences, such as mathematics, operational research and psysiology, and advanced technology, such as electronic computers. These methods will play an increasingly greater role in collecting and handling economic information, making correction predictions and policy decisions and strengthening routine supervision.

V. Promptly Regulating and Supervising the National Economy

Only by promptly regulating and supervising the national economy can the development of the socialist economy in proper directions be guaranteed. The routine task of national economic management is to promptly regulate and supervise.

A. The Role of Economic Supervision

Economic supervision is principally supervision and direction of economic organizations and enterprise economic activity at all levels by the socialist state and includes supervision of economic organizations and leaders at all levels by the masses. Economic supervision is, thus, comprehensive super-

vision carried out for all links of social reproduction from above, from below and by a combination of the two. Economic supervision is a guarantee of successful national economic development, can guard against and prevent the occurrence of activity in violation of financial and economic laws and is a tool in attacking economic crimes. Economic supervision is a guarantee to realize national plans. It can spur enterprises to strengthen economic accounting. It is also a way to develop and support party leaders and ensure the progress of economic construction along the socialist path.

B. Prompt Regulation Based on Economic Supervision

Due to continuous changes in national economic developments, the extent of the influence on production of many factors is hard to predict accurately and certain uncoordinated affairs may regularly occur. Promptly regulating economic development is, thus, also a task of national economic management. Based on economic supervision and faced with problems which have appeared or which may appear, using essential steps to make prompt regulations can quickly solve problems or prevent the occurrence of budding ones. Prompt regulation can, thus, both ensure the development of present production co-operation and also prevent the accumulation of problems and avoid major mistakes.

12267
CSO: 4006/367

FINANCE AND BANKING

ECONOMIC DEVELOPMENT THROUGH BANK REFORM

Beijing ZHONGGUO JINRONG [CHINA'S FINANCE] in Chinese No 7, 4 Jul 84 pp 4-5

[Article by Zhao Peiwei [6392 0160 0251] of the Jilin Branch of the China Industrial and Commercial Bank: "Do a Good Job at Bank Reform, Promote Economic Development"]

[Text] This year, Jilin Province's industry has continued to grow, there has been a coordinated development of light and heavy industry and there has been an improvement of economic results. With last year's abundant harvests and the development of industrial production, the urban and rural markets have been even more flourishing.

However, from the situation reflected in bank business activity, two problems have occurred in the development of industrial and commercial enterprises: first, some products are of low quality, have high prices and are overstocked and unmarketable; and second, large amounts of funds are used and the economic results are substandard. Based on the statistics from light industry loans, the amount of floating assets used to sell 100 yuan of goods has risen 4.4 percent and the turnover of funds is slow--5 days. The use of funds for loans to the textile industry increased 12 percent, loans rose 39 percent, profits decreased 25 percent and turnover of funds required 259 days, 55 days slower than the year before.

Based on the spirit of the Second Session of the Sixth NPC and the goals raised by the leading comrades of the CPC Central Committee and the State Council for liberating thought, relaxing policies and accelerating reform, China's Bank of Industry and Commerce, within the limits permitted by state banking policies, must further liberate thinking, break through the trammels of "leftist" thinking, do a good job at the systematic reform of banks and promote economic development.

1. In order to support the technological transformations of enterprises, in the future the repayment period of bank-issued medium- and short-term equipment loans can be extended from 3 years to 5 years. Preferential interest rates will be given to medium- and short-term loans for the country's key strategic projects. Floating assets loans can be used to support enterprises' single purchases and single projects involving more than 50,000 yuan. Low-interest loans will be given to enterprises that are developing new technology. At the same time, we must simplify loan procedures and implement a two-grade management method for investigation and for examination and approval.

2. We must actively support the trial manufacture of new products by enterprises. Responsible departments are permitted to share in the cost of the trial manufacture of new products that are first used and then proposed or first used and then reported, and banks can support these projects with loans.

3. Losses incurred during the trial manufacturing period by enterprises that have just gone into production must in theory be made up from the projects' test-run fees. If the losses cannot be made up from the test-run fees, banks can provide support under the prerequisite that concerned departments assume responsibility for repayment.

4. In order to revitalize enterprises that are operating at a loss, based on the spirit of the provincial party committee and provincial government for "putting pressure on, making policies for and giving a chance to" enterprises operating at a loss, all banks which open accounts must adopt positive measures and help turn losses into profits. Banks, under the prerequisite of enterprises having adopted effective measures, must sign contracts with and grant monthly loans to enterprises with temporary losses and that do not operate at a loss throughout the year. Any profitable products of enterprises that are able to be treated separately can be specially managed and loans can be granted one by one and repaid one by one per product. Interest should not be increased for losses incurred when second light industry jointly assumes responsibility for profits and losses, and interest can be deferred if there are any real difficulties.

5. In order to support the readjustment of enterprises, if a unit needs the equipment of an enterprise that has closed down or suspended production and temporarily does not have the funds, the bank can manage the transfer of accounts or the bank's credit section can work out an agreement between the two parties for leasing the equipment, and the idle equipment can be used for production.

6. We are loosening the regulations on loans to small collective enterprises. If the floating funds of small collective enterprises that produce small goods for daily use and that have a market for their products and good economic results are not at least 30 percent [of their total funds] right away for these products, and yet this level can be achieved within an agreed-upon time, then the banks at their discretion can grant loans to these enterprises. Equipment loans can be granted to enterprises that are carrying out technological transformations. The interest on the loans can be adjusted downward for enterprises with good economic results and that produce high quality and hard-to-obtain goods.

7. Enterprises that have just gone into operation and that have the appropriate management, besides opening accounts according to regulations, having their accounts settled and receiving loans, can, within 2 years of opening, receive preferential loans with a monthly interest rate of 0.36 percent.

8. We actively support the development of individual industrial and commercial households in cities and towns. All industrial and commercial households in cities and towns that have been approved by industrial and commercial administrative departments, as well as peasants who take care of grain rations

themselves and come to cities and towns to manage commerce and a handicraft industry, need only to engage in management activities that are permitted by state policy and have a certain amount of their own funds to be able to set up accounts in their area's Bank of Industry and Commerce as well as in assigned savings banks or financial service cooperatives and can apply for loans based on the conditions of the loans. This year we are planning on using 5 million yuan in credit funds to support individual households. The size of a loan to each household was raised from 2,000 yuan in the past to 5,000 yuan, and the size of the loan can be raised even higher as appropriate for individual households with good credit, large results and reliable guarantees. The longest possible repayment period has been extended from 6 months to 12 months. The final accounts of individual households must be completed quickly and conveniently, and this requires that the transfer of accounts is handled according to the methods for handling accounts and requires that there are no restrictions on deposits and withdrawals.

9. We must relax the scope of the use of funds. We must allow enterprise units to use cash to purchase farm produce and sideline products and permit the use of cash for expenditures; after retail stores receive consent from responsible departments, they are allowed to take along cash when they travel to other areas to purchase diverse industrial products. Enterprise units that go to border districts and other areas in which it is inconvenient to transfer accounts and settle accounts when purchasing goods and materials may also take along cash. The units' incidental expenses can be paid in cash according to the actual circumstances.

10. We are relaxing the management of wage funds and bonuses. Workers' bonuses of state-run and collective enterprises not implementing the management contract responsibility system should be paid according to the amount of annual wages and bonuses that have been approved by relevant departments. State-run and collective enterprises that are linking their management situation with economic results and whose workers' bonuses have not been set should set the bonuses and wages of their workers according to the provincial government's relevant regulations, and the bonuses can be distributed so long as there are savings in the enterprises' special bonus accounts. Enterprises that are implementing a management contract responsibility system then pay bonuses according to an agreement or contract. The wages and bonuses of workers in stores (factories) with individual contract management are not controlled and supervised.

11. We are appropriately initiating commercial credit. We must support products that can be sold on credit according to state regulations and support enterprises that must handle credit sales. Banks can handle the approved credit of buyers and sellers if there are difficulties with funds for buying and selling large complete sets of equipment and mechanical and electrical products which are being sold on credit.

12. We are starting work in using money orders to settle accounts. Money orders are convenient and flexible, reliable and dependable, they are uniformly written, and circulation and transferrals are not permitted. The lowest denomination is 100 yuan, they are valid for 30 days, can be carried on one's person, the money is with the individual, it can be drawn once or in

installments and any extra amount can be returned. State-run and collective enterprises can all use this method.

At the same time, we must also strive to develop social services work, strengthen credit networks, promptly provide industrial and commercial enterprises and relevent departments with economic information in all aspects and better serve the construction of Jilin's national economy.

12437
CSO: 4006/721

FINANCE AND BANKING

BANKS SHOULD PLAY MORE IMPORTANT ROLE IN NATIONAL ECONOMY

Beijing GUANGMING RIBAO in Chinese 29 Jan 85 p 2

[Article: "Jiang Wengui [5592 2429 2710], Vice Chairman of the Board of the Bank of China, Pointed out That We Must First Vitalize Banks in Order To Vitalize the Economy"]

[Text] Jiang Wengui, vice chairman of the board of the Bank of China and also director of the Hong Kong and Macao Administrative Office recently pointed out that China must first vitalize banks in order to vitalize enterprises.

Jiang Wengui said that even though China's banking system has undergone a few reforms, the role of banks as well as their system of management and administration are still the same as they originally were. Banks do not have much autonomy with regard to credit and can only grant loans according to the state plan. Banks do not have to take an interest in the quality of loans, and after a loan is granted, they neither supervise nor do they have the authority to supervise: they can only grant loans according to a plan. Even today, banks only play a role in "general accounting" and "general receiving and paying" and do not play a role in organizing and distributing social funds and organizing different credit activities. Banks are in a subordinate position in the national economy.

Jiang Wengui analyzed the situation by stating that the banking industry in capitalist countries is a tool for industry and commerce: it determines the economic fate of industry and commerce. Banks can organize and distribute social funds, and by attracting savings and collecting idle capital from society, use different forms of credit and without any restrictions distribute the necessary funds to meet the needs of enterprises and individuals. Banks can also organize different credit activities in society. For example, factories purchase raw and processed materials on credit, factories sell their goods on credit, retail businesses purchase goods from wholesale businesses on credit, and retail businesses sell goods to individuals on credit, etc. Most of these credit sales and purchases are supported by banks. For example, when businesses dealing in raw materials or retail businesses sell goods on credit, they often accept postdated checks form the people purchasing the goods, and if funds are needed before the date that the

chedk comes due, the banks can provide the funds. This type of commercial credit activity stimulates the market economy and causes a quick turnover in the funds of enterprises. Another role of banks in capitalist countries is that they also engage in various types of service work. Banks can utilize their broad connections, their various economic experts and other advantages and develop consulting services, and they can assume the role of financial consultants to certain large industries. Banks generally use computers to automatically handle whatever payments customers have entrusted to them, and customers can entrust banks to pay for them on schedule water bills, electricity bills, telephone bills, taxes and other bills. Enterprises can entrust banks to pay their payroll and directly transfer the money to the accounts of their staff. These activities both provide a service to society and also help banks to promote their business. In highly advanced capitalist society, cash is no longer an important medium of exchange, and various types of checks, credit cards and automatic systems for transferring accounts have begun to replace cash.

Jiang Wengui said that socialist banks should certainly not indiscriminately imitate capitalist banks, yet China can use a few useful methods of capitalist banks in its own banks. For example, banks must play an even more important role in the national economy and give play to their role in actively providing support in the organization of social funds and in providing support in the realm of production, construction and communications. This requires that banks be given a certain amount of autonomy and be invigorated. Allow enterprises that are able to use limited [liability] funds to expand its use and to use 1 yuan to make a few yuan in business. He said that on a certain level, we must first vitalize banks in order to vitalize enterprises. In the restructuring of the economic system we must make the position and role of the bank stand out and cause banks to play an even more important role in the national economy.

Jiang Wengui especially stressed the matter of banks organizing society's credit. He said that socialist banks must also organize the credit activities of socialist commodities. In the past, we did not acknowledge the existence of a commodity economy, and if banks were not striving to organize social credit activities, the commidty economy could not be vigorous and flourishing. Certainly, the credit activities of capitalist commodities economies have a tremendous amount of speculation, and we must spare no effort to overcome and think of a way to avert this tendency.

12437
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FINANCE AND BANKING

CENTRAL BANKS' CONTROL OF FOREIGN EXCHANGE DISCUSSED

Beijing ZHONGGUO JINRONG [CHINA'S FINANCE] in Chinese No 7, 4 Jul 84 pp 27-29

[Article: "On Central Banks (Part 8)"]

[Text] XI. Control of Foreign Exchange Reserves

Central Banks are in charge of international currency preparedness (including gold, silver and foreign exchange). A few countries still authorize their central bank to manage foreign exchange. In order to explain this matter, I must briefly introduce a few necessary bits of basic information.

A. The Balance of International Payments and Foreign Exchange

Some of the economic transactions that take place between countries are trade transactions, supply of services, loans, grants, aid, etc, and because of this, debtor and creditor relationships occur. These international debtor and creditor relationships must be settled within a certain period of time using a common international currency. Creditor nations must receive currency and debtor nations must expend currency, and this is what forms currency revenue and expenditures between countries. It is clear that the balance of international payments indicates the comprehensive situation of a nation's foreign currency revenue and expenditures at a given time.

The substance and scope of the balance of international payments gradually expands with the development of the international economy and transactions in other respects. At the very beginning, this only meant revenue and expenditures from foreign trade: after the collapse of the international gold standard, the balance of international payments meant the entire amount of revenue and expenditures of the foreign currency of one country. After World War II, the balance of international payments included the entire international economic activity of a country during a specific period, and economic activity not involving cash expenditures, such as settling accounts for sums less than the amount that was agreed to be paid and exchange trade, are also included. Currently, this is what is generally known as the balance of international payments. If we take the sum total of all revenue and expenditures and list them in a table according to the principles of accounting debits and credits, this is then called the balance of international payments: it is a record of every type of international revenue and expenditure project during a certain

period and the sum of money involved. There are three different types of projects on a balance sheet: one type is the regular projects, including revenue and expenditures from trade, from labor and the transfer of revenue and expenditures (i.e., foreign exchange from overseas Chinese, assistance, indemnity, etc.); another type is capital projects, namely, the import and export of capital; and the third type is projects that balance or settle accounts, and this includes the reserve assets and foreign debts held by central banks and other currency authorities.

After we know the meaning of the balance of international payments we can be more clear about the meaning of foreign exchange. Foreign exchange is generally known by people to be "currency from foreign countries," and people think that buying and selling foreign exchange means purchasing and selling foreign currency from different countries. This understanding is not wrong but it is also not comprehensive. First, banknotes from foreign countries cannot all be called foreign currency; second, in addition to banknotes, there are many other means of making payments in the form of foreign currency that can also not be called foreign exchange. So, what is foreign exchange? The IMF gives the following explanation: "Foreign exchange is the credit that administrative authorities of currency (central banks, currency management organizations, foreign exchange equalization fund organizations and the Ministry of Finance) use in the form of bank loans, treasury certificates and long-term negotiable securities when they have a negative balance of international payments." Or to use more popular phrasing, foreign exchange is foreign currency that is used as a means of payment to clear up debts between nations. It includes bank loans, commercial drafts, bank drafts, bank checks, the treasury certificates of foreign governments, long-term and near-term negotiable securities and other means of credit and securities that are in the form of foreign currency. This is the normal way of explaining it. There is also a dynamic way of explaining foreign exchange: because "foreign exchange" [wai-hui 1120 0565] is the contradiction of "foreign" [waiguo 1120 0948] and "exchange" or "remittance" [hui dui 0565 0345], when the foreign currency of one country is exchanged into the foreign currency of another country so as to settle the debtor-creditor relationship, this type of behavior is called foreign exchange. Thus, the phrase "foreign exchange" includes the method of exchange, the reason for exchange, the form of exchange and the rate of exchange.

Because foreign exchange is the means of payment for settling accounts between countries, it is therefore the same as gold and silver. Each country regards it as reserve assets, and these assets are used to repay debts when there is a negative international balance of payment. Who takes care of and manages these reserve assets? This is where the responsibilities of the central banks come into play.

B. The Meaning of Taking Care of and Managing Reserve Assets

The central bank is a country's currency issuance bank. Not only must it stabilize the value of currency domestically but it must also maintain the value of currency abroad, and the two are closely connected. In order to realize these two goals, each country's government gives its central bank the

responsibility for managing its international currency preparedness. So-called international currency means currency that has international purchasing power. The main forms are gold, including gold coins and gold buillon; silver, including silver coins and silver buillon; and foreign exchange assets, including foreign currency, leftover deposits kept in foreign savings, bills that are settled with foreign currency and other floating assets. In addition, there are also special drawing rights [SDR] and the money supply of the IMF.

The execution of these duties by the central banks is significant in three ways. First, central banks help stabilize the value of the currency. The central banks of many nations must maintain a certain proportion of international currency to import commodities or can sell gold, withdraw currency from circulation, hold down prices and maintain the stability of currency on domestic value. Second, central banks help stabilize currency prices. Under a floating exchange rate system, when market exchange rates are acutely passive, the central banks of Western nations intervene by using international currency, cause the exchange rate of their currency to stay at a reasonably stable level and keep the value of their currency stable abroad. Third, central banks help adjust the balance of international payments. When revenues and expenditures of foreign exchange are usually in a deficit balance, central banks can use international currency to supplement the currency that has not been imported in large enough quantities. When there are ample international preparedness funds, the central bank can reduce its loans to foreign countries and use international currency to settle debts or expand the export of capital.

Each country pays a great deal of attention to studying the problem of how central banks manage their own reserves, including the composition, the level and the use of reserves. Below we will give a brief explanation of the important problems.

C. The Problem of the Composition of Reserves

It is generally felt that the composition of international reserves must possess three special characteristics: first, security and reliability; second, reserves must be able to be easily cashed; and third, they must be profitable. That is to say that not only must we make sure that reserve assets do not suffer losses but that they also yield the greatest possible profit. These profits must be the actual profits earned from subtracting the amount of depreciation from the amount of appreciation through rotating different currencies or transferring the profits to savings accounts. The most important point is the flexibility of the currency: it should be able to meet the needs of international trade, the supply of services and overseas debts. I will now make a few analyses.

Gold is safe and dependable but is not easily convertible, not profitable and it costs more to manage gold that it costs to manage foreign exchange assets. Therefore, the proportion of gold in the international reserves of each country is declining daily. Because gold prices are extremely passive, prices will drop if large amounts of gold are sold. In order to avoid serious danger, in general central banks from all countries rarely purchase and sell large amounts of gold. Some countries such as the United States, France and West Germany

keep large amounts of gold. This is shaped by past actions, and their gold is now difficult to sell because the central banks of other countries are not purchasing large amounts of gold. There are even people with the opinion that gold kept by central banks acts as a "crisis reserve" or a "state treasury war" reserve. In fact, gold reserves also play a positive role. First, gold plays the role of maintaining its value. Gold prices are constantly rising and falling, and when there is inflation in capitalist countries and the long-term trend is for prices to rise, gold can offset losses brought about by changes in interest rates. Central banks can also utilize changes in market prices and earn a profit by importing gold at a low price and exporting it at a high price. Second, gold is better able to settle accounts than foreign exchange: gold can be sold and converted into foreign exchange, and when prices are unfavorable, it can be used as collateral so loans can be taken from central banks of other countries or from large international banks. Thus, every advanced industrial nation keeps a certain amount of gold reserves. According to statistics, in the 30-year period from 1950-1980, the world's gold reserves increased only 0.08 percent, although there were some changes in the distribution in each country. Because the economic strength of the United States, Great Britain and other countries is weak, their gold reserves have decreased by a large amount; the gold reserves of other advanced industrial nations have risen by a great extent, including seven Western European nations which in 1980 had 44.5 percent of all gold reserves.

The special characteristics of foreign exchange assets are that they can easily be cashed and yield high profits, yet they are also risky. In the past, most countries kept U.S. dollars in their nongold foreign exchange reserves, and in the past few years, especially since 1979, a trend of large diversification has taken place in currency reserves. Many countries in addition to keeping U.S. dollars have also gradually increased the amounts of currency from other countries. Even though the U.S. dollar still holds an important position in currency reserves, the Deutsche mark is already used as the currency of government intervention in the European currency system. The British pound, the Japanese yen, the French franc, the Swiss franc and the Dutch guilder are also used as currency assets. The proportion of Japanese yen is still growing and the British pound is weaker than before. Why do these trends occur? The main reason is the collapse of the Bretton Woods system and the implementation of floating currency rates. I will explain this further: in July 1944 at the Mount Washington Resort in Bretton Woods, New Hampshire, a joint currency financial conference was held. At the conference, the value of currency was determined according to the fixed rate of gold, and the price of gold was set at $35 per ounce. Moreover, the values of the currencies of other countries were determined based solely on gold and the U.S. dollar, and this placed the U.S. dollar and gold on equal footing. Thus, the U.S. dollar became the international means of payment and the reserve currency, and a capitalist world currency was established around the U.S. dollar. This system had two mainstays: first, it allowed U.S. dollars to be used in place of gold; and second, every country's currency was linked to the U.S. dollar and fixed exchange rates were maintained. After a few crises involving the U.S. dollar, the policies adopted by the U.S. Government, to maintain a certain degree of exchangeability fell though, and by August 1971, the United States could not help but announce that gold would no longer be pegged to the U.S. dollar, and

in fact they cut off the direct relationship between the U.S. dollar and gold. They were still trying to think of a way to preserve fixed rates, and after another crisis with the U.S. dollar broke out in 1973, the U.S. dollar was devaluated for the second time. This compelled the currencies of important countries to be extricated from the dollar one by one, it eliminated the fixed rate of the U.S. dollar and led to the implementation of a system of floating currency rates. Because of this, the Bretton Woods system collapsed. Under these circumstances, many nations avoided the losses brought about by the devaluation of the U.S. dollar in order to preserve the value of their reserve assets, they increased their profits and changed the composition of their reserve currency. Because there are many kinds of foreign exchange assets, the risks can be spread out and losses brought about by passive currency rates can be avoided. In another respect, the European market also provided a diversified channel for reserve currency. Because they loosened the official restrictions on the Deutsche mark, Swiss franc and Dutch guilder, they made diversified currencies possible.

Even though international currency assets, including SDR and the money supply of the IMF, can be easily cashed and are safer than keeping the currency of another country, at present they still cannot be easily purchased and thus have not yet become one of the world's key reserve assets.

D. The Problem of the Level of Foreign Currency Reserves

A country must maintain a certain level of foreign currency reserves, and each country must have unified standards. Usually this is determined according to each country's situation in regard to the international balance of payments and its domestic policies.

A country first must consider how much of a turnover of foreign exchange it needs. If a turnover of international reserves is necessary mainly to pay debts and import commodities, this does not mean that a country's international reputation is harmed because foreign exchange funds have been exhausted. Under the current circumstances of an unstable world economy and inflation that changes with each passing day, many countries, especially industrially advanced Western European nations, mostly regard foreign exchange reserves as turnover measures that are used to pay the international balance of payments, and they mostly regard gold reserves as a measure for ensuring value.

Second, a country must consider the necessary amount of national reserves so as to be prepared in case the reserves are urgently needed. International reserves originate from currency issuance plans. Even today, international reserves play an important role in adjusting currency issuance and stabilizing the value of currency. Thus, determining the amount of international reserves must still be considered from the viewpoint of currency policies. Moreover, the situation must still be considered from the viewpoint of the strength of the country's economic reserves, and these reserves should play the role of a "reservoir." Certainly, this is not a situation in which the more reserves a country has the better off it is: international reserves that are too large will not be used and will affect the rate of a country's construction.

There are no specific criteria with which to make this judgment, but each country makes this judgment using its imports or foreign debts (especially the deadline for debts). In most developing nations, foreign exchange reserves are usually not lower than 2 or 3 months of total imports. If the level of reserves is too low, the risks are great and it is also difficult to borrow money.

From the viewpoint of the actual circumstances, in 1949, the proportion of the world's reserves to its total imports was 78 percent, in 1969 it decreased to 31 percent and in 1971 it went down to 26 percent or equal to 3 months of total imports. Each country's circumstances are different, of course. For example, in 1980, Switzerland had the highest proportion of reserves to imports at 98.5 percent, the proportion of Saudi Arabia, an oil exporting nation, was 69.8 percent, India was also quite high at 83.7 percent and the proportion of the United States was 66.7 percent. The countries with the lowest proportions, such as Morocco, did not exceed 20 percent. Each country's circumstances are different, and it is irrational to simply analyze a country by the proportion of its reserves. Below are the factors we can use to make a specific analysis.

1. Countries which act as issuers of reserve currencies, such as the United States, Great Britain, West Germany, Switzerland and Japan, besides paying for exports, must also intervene in market reserves, and in the normal course of events must leave a little extra in reserve. Yet they have abundant financial capital, numerous sources of foreign exchange reserves, and their capability for repayment cannot be reflected completely in the proportion of reserves and imports. Moreover, when necessary, they can issue their own currency, so the level of their foreign exchange reserves can be a little lower. The level of gold reserves must then be a little higher.

2. Foreign exchange reserves and debts are linked, and if short-term debts are large, then there must be a large amount of reserves. If money can be borrowed fairly quickly, the amount of foreign exchange reserves can be a little lower. The foreign exchange reserves of some debtor nations are lower than their total debts, and they must rely on taking out new loans to repay old debts. For example, Denmark has foreign exchange reserves equal to 3 weeks of imports, and their long-term debts are large. Yet they are able to borrow short-term loans and also repay them quickly. This explains that the level of foreign exchange reserves is based on the ability of each country to make payments to foreign countries, and it can be either high or low.

3. The level of foreign exchange reserves must be considered with regard to investment. If a country's balance of international payments is on the surplus side, there are two methods of investment available; the first is to expand domestic production through imports, and this is more beneficial than investing abroad; the second method is to invest abroad when the interest rates are higher abroad than at home. When investment is large, the amount of reserves are reduced, yet investment can expand the sources of foreign exchange revenue and in the end can replenish foreign exchange reserves.

(1)人民币对外币汇价表

(2)1984年6月12日 (3) 单位：人民币元

(4) 货币名称	(5)	(6)	(7)
(8) 美 元	(9) 一百	219.08	220.18
(10)英 镑	〃	306.29	307.83
(11)西德马克	〃	81.03	81.43
(12)瑞士法郎	〃	97.78	98.28
(13)法国法郎	〃	26.26	26.40
(14)意大利里拉	(15) 一万	13.01	13.07
(16)日 元	(17) 十万	943.99	948.73
(18)新加坡元	(9) 一百	103.88	104.40
(19)港 元	〃	27.93	28.07

(20) 伦敦市场黄金白银价格

(21)1984年6月11日 (22)单位：一盎司合美元

(23)黄金（收盘价）	378.00～378.50
(24)白银（收盘价）	8.77～8.80

(25)特别提款权、欧洲货币单位对美元和人民币换算率

(21)1984年6月11日

1 特别提款权 (26)(SDR)	1.06473 (8)	2.33元 (27)
1 欧洲货币单位 (28)(ECU)	0.82794 (8)	1.81元 (27)

(29) 全国城乡储蓄存款

(30)1984年5月31日 (31)单位：亿元

(32)项 目	(33)余额	(34)年末	
		(35)	(36)
(37)城乡储蓄存款合计	988.03	95.55	10.7
(38)城镇储蓄存款	646.03	73.45	12.8
(39)社员个人存款	342.00	22.10	6.9

(40)西 方 主 要 国 家 利 率

(41)年息%

	U.S.	Japan	F.R.G.	France	Gr. Br.	Switz.
(42)中央银行贴现率（6月5日）	9.0	5.0	4.0	9.5	* 9.13	4.0
(43)商业银行优惠放款利率（6月4日）	12.5	5.5	6.0	12.25	10.0	7.5
(44)伦敦欧洲货币市场（三个月期6月8日）	11.5625	6.3125	5.8125	13.5000	9.5000	3.8125

(45)* 银行基本放款利率

Key:

1. Price Conversion Chart for Renminbi to Foreign Currency
2. 12 June 1984
3. Unit: RMB
4. Name of Currency
5. Currency Unit
6. Bank Purchasing Price
7. Bank Selling Price
8. U.S. Dollar
9. 100
10. British Pound
11. Deutsche Mark
12. Swiss Franc
13. French Franc
14. Italian Lira
15. 10,000
16. Japanese Yen
17. 100,000
18. Singapore Dollar
19. Hong Kong Dollar
20. Gold and Silver Prices on the London Market
21. 11 June 1984
22. Unit: One Ounce in U.S. Dollars
23. Gold (Closing Price)
24. Silver (Closing Price)
25. Rate of Conversion From U.S. Dollars to RMB for SDR and European Currency Unit
26. 1 SDR 27. RMB
28. 1 European Currency Unit
29. China's Urban and Rural Savings
30. 31 May 1984
31. Unit: 100 Million Yuan
32. Item 33. Extra Amount
34. Increase Compared to the Year Before
35. Amount of Increase
36. Percentage of Increase
37. Urban and Rural Savings
38. Urban Savings
39. Savings of Commune Members
40. Interest Rates in Key Western Countries
41. Yearly Interest Rate

42. Discount Rate of Central Banks (June 5)
43. Preferential Interest Rate of Commercial Banks (4 June)
44. London European Currency Market (3-Month Period of 8 June)
45. Interest Rate on Basic Bank Loans

12437
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FINANCE AND BANKING

BANK OF CHINA OFFICIAL ON PRC FOREIGN EXCHANGE RESERVES

Beijing CAIMAO JINGJI [FINANCE AND TRADE ECONOMICS] in Chinese No 12, 11 Dec 84 pp 33-34

[Article by Zhang Zhongru [1728 1813 1172]: "Level of Foreign Exchange Reserves Should not Be Kept Too High"]

[Text] The spectacular increase in China's foreign exchange reserves in the past 2 years has attracted attention at home and abroad. Let me offer below some preliminary observations on this matter.

(1) The sharp increase in foreign exchange reserves is a temporary phenomenon. For the long term, we will run short of foreign exchange reserves.

China's foreign exchange reserves stood at 11.125 billion dollars at the end of 1982, a 132 percent increase over 1981. It rose to $14.72 billion by the end of 1982, 32.5 percent more than in 1982. Foreign exchange reserves increases on this scale are unprecedented in the history of the People's Republic. They result primarily from our large trade balance, which, in turn, was due to the substantial growth in our exports coupled with a simultaneous temporary reduction in imports as the national economy underwent readjustment and investment in capital construction shrank. Trade surpluses in 1982 and 1983 amounted to $6.75 billion. In my opinion, this is only a temporary situation. In the long run, we will still face a shortage of foreign exchange reserves. As the national economy is readjusted and quickens its pace, paving the way for economic revitalization in the 1990's, we must vigorously use foreign capital, raise foreign exchange funds through the Bank of China as well as use our existing foreign exchange reserves in order to introduce advanced technology and equipment, accelerate key national construction projects and the technological transformation of small- and medium-sized enterprises, and serve the four modernizations.

The steep increase in our foreign exchange reserves has also given rise to a misunderstanding. The International Monetary Fund (IMF) has asked us to make loan repayments earlier than scheduled. Questions have been raised at the World Bank: Awash in foreign exchange reserves, why does China still have to borrow? Some countries with international balance of payments difficulties have approached us for loans. To help the world understand the structure of

our foreign exchange reserves, China has been releasing data on gold and foreign exchange reserves since the third quarter of 1983. Also made publicly available is a breakdown of foreign exchange reserves into national reserves and Bank of China balance. In addition, the Chinese Government has also published statistics on China's foreign debts.

(2) An excessive increase in foreign exchange reserves has negative as well as positive effects on the four modernizations.

Foreign exchange reserves often serve as a litmus test of a nation's international economic status and its ability to pay its bills. Our increasing foreign exchange reserves reflect an improvement in the national economy and a strong financial position. From the perspective of economic results, however, a failure to make full use of foreign exchange reserves may have adverse results for the four modernizations.

1. It works against the acceleration of key construction projects and the technological transformation of enterprises. In a certain sense, we export to import; hence our foreign trade surplus implies a corresponding drop in the rate at which we have been buying from abroad. China is currently in the midst of economic construction, with an urgent need for scarce materials, imported technology and key equipment. Depositing our surplus reserves through the Bank of China in foreign banks may yield interest, but it is also highly risky because of the present capitalist economic crisis, inflation and its accompanying uncertainties. In terms of economic results, and this is an even more important point, it simply does not pay to stash away our surplus funds, instead of making use of them to expand reproduction and let reserves beget reserves.

2. It militates against currency stabilization and the achievement of an equilibrium in material, credit and finance. Too much foreign exchange reserves will inevitably increase the amount of renminbi in circulation and upset the material balance, credit balance and financial balance. As foreign exchange reserves go up, so does the amount of renminbi in circulation. The turnover of credit funds will worsen and our financial and credit balance of payments will suffer. Foreign exchange reserves is a plus. By putting away our abundant reserves, we are in effect idling a large quantity of goods, instead of turning them into a productive force in the interest of reproduction. The former move is as wasteful as the latter.

3. It puts us at a disadvantage when we apply to international financial institutions for loans on favorable terms. According to IMF regulations, a member nation which runs a deficit in its international balance of payments is eligible for loans on credit equivalent to its deficit. Such loans have long maturing periods and low interest rates. In 1981, for instance, because of our international balance of payments deficit in the previous year, we were able to secure from the IMF 450 million special drawing rights, roughly equivalent to 550 million dollars. As our international balance of payments showed a considerable surplus in recent years and our foreign exchange

reserves shot up, we have lost our eligibility for special drawing rights. Not only that, the IMF has even asked us to pay back our loans ahead of schedule.

(3) We should make full use of foreign exchange reserves to benefit the four modernizations.

At what level should a nation maintain its foreign exchange reserves? There is no universal standard. It all depends on the nation's economic structure, economic strength, dependence on international exchange, foreign credit rights and foreign debt servicing, etc. An international rule of thumb is that a nation's foreign exchange reserves in a certain year should be equivalent to what it takes the nation to pay for 2 to 3 months of its imports for the same year. At present, our foreign exchange reserves are equivalent to 9 months worth of imports, which is evidently too high. We must, therefore, look for a way to keep our foreign exchange reserves at a reasonable level and make full use of them to serve the four modernizations.

1. We should maintain our international balance of payments and equip ourselves with a suitable amount of foreign exchange reserves. At what level should we maintain our reserves? To answer that question, we should take China's actual conditions as our point of departure and, under the premise of the policy of self-reliance, the open-door policy and the policy of active use of foreign capital, consult international practices as a guide.

If we maintain our foreign exchange reserves at a level equivalent to the value of 2 to 3 months of imports and limit the amount of foreign capital in a particular year to within 15 to 20 percent of our export earnings in the same year, we will be in an impregnable position. There should be different policies for gold reserves and foreign exchange reserves. Gold reserves are more often regarded as a hedge against depreciation and a stabilizer. Foreign exchange reserves, on the other hand, are usually considered a means of payment. Consequently, we should maintain our international balance of payments on an even keel and arm ourselves with a reasonable amount of foreign exchange reserves without letting them interfere with imports and other international payments in order to protect our nation's high international reputation. There are some years, however, when we have to seize favorable opportunities to attract foreign capital and import technology and plants. In these instances, it would be justifiable to incur a deficit in our foreign exchange.

2. We should analyze the composition of our present foreign exchange reserves in the interest of their optimal utilization. Of the $14.74 billion we had in foreign exchange reserves at the end of 1983, national reserves accounted for $8.94 billion, primarily foreign exchange allocated by the state to various central ministries or departments and localities. More specifically, about $3.5 billion in central allocations and another $5.4 billion in local allocations were available for key construction projects and the technological transformation of enterprises. Reserves held by the Bank of China amounted to $5.8 billion, mainly domestic and foreign deposits minus loans. These reserves are essentially used in short-term turnover transactions. In addition, we owed $3 billion in foreign debts at the end of

1983. We should work out principal and interest payments based on their maturing periods in a comprehensive way.

3. We should do a good job in overall balance, carry out sound feasibility studies and expand our imports. In light of China's comprehensive plan for economic construction and technological transformation, the central government and the provinces should effect an overall balance and, with that as a base, expand the importation of advanced technology and key equipment in a planned and selective way. Therefore it is essential that the relevant central ministries and localities use foreign exchange reserves imaginatively and properly to achieve maximum economic results. This task must be centrally organized by the State Economic Commission and the State Planning Commission, with close cooperation and coordination from all departments concerned. We must collect domestic and international data and information on technology, conduct feasibility studies and really satisfy ourselves that the imports we pay for actually contribute to economic results. Only thus would we be able to use the nation's foreign exchange reserves on the cutting edge.

12581
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MINERAL RESOURCES

QINGHAI ISSUES INTERIM PROCEDURES FOR GOLD MINING

HK020506 Xining Qinghai Provincial Service in Mandarin 1100 GMT 1 Apr 85

[Text] According to QINGHAI RIBAO, the provincial government has recently issued interim procedures for extracting and procuring gold among the masses.

The interim procedures stipulate that all units and individuals who deal in the extraction and production of gold must be holders of gold mining licenses. All gold mined by them must be sold to the People's Bank or other banks commissioned by the People's Bank.

Through the interim procedures, the provincial people's government stipulates that the gold mining license should be formulated and standardized by the provincial Heavy Industry Department, and should be issued by various county departments in charge of gold mining. The license is valid for a year period and is not transferable. Licenses should go through the renewal procedure in the first quarter of each year. After signing the agreements on selling the gold produced, all licensed units and individuals should register themselves with and have their licenses examined at the gold mining departments of the gold production areas. Only then will they be allowed to extract gold in the designated areas. We should ban all unauthorized gold extractors by confiscating their production tools and imposing fines on them.

In connection with PRC regulations on business and management, the interim procedures stipulate that only the people's banks at various levels are authorized to purchase gold. In addition, the procurement will be carried out in a planned way and level by level. The people's banks at various levels, as well as other banks commissioned by the People's Bank, must actively do well in procurement. They should make things convenient for the masses. Workers of the banks must be warm toward the masses, be fair in buying and correct in examination, and be careful in calculation.

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INDUSTRY

BRIEFS

SHANGHAI FULFILLS INDUSTRIAL PLAN--December 21st, it was revealed by the department concerned that on 20 December, the grand total of industrial output value for the municipality already reached 71.6 billion yuan, and that the task set in the Sixth 5-Year Plan was fulfilled 1 year and 11 days ahead of schedule. By the end of November, the output of 17 major products listed in the state plan, namely, steel, rolled steel, pig iron, iron alloy, iron ores, gold, glassfiber, cement, vehicle tires, cement equipment, microcomputers, single-board microcomputers, cassette recorders, chemical fiber pulp, battery cells, glass products of daily use, and household laundry machine, reached the goal set in the Sixth 5-Year Plan 1 year and 1 month ahead of schedule. According to the spirit of the municipal government's instruction, all the industrial branches are making every effort to produce more high- and medium-grade durable consumer goods and more daily necessities and raw materials of various types now in short supply in order to reach more goals according to the Sixth 5-Year Plan within the last several days of this year. [Text] [Shanghai WEN HUI BAO in Chinese 22 Dec 84 p 1] 9411

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DOMESTIC TRADE

CHONGQING'S STRUCTURAL ECONOMIC REFORM DISCUSSED

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 8, 27 Aug 84 pp 14-16

[Article by Luo Hanxian [5012 3211 0341]: "A Review of the Structural Reform of Chongqing's Economy"]

[Text] A year has passed since the initiation of the pilot structural reforms of the economy of Chongqing, the first city in China to carry out such experimental reforms. We can see that the results have been substantial and the experience has been favorable. This is proof that the experiments are correct. In order to briefly describe the city's achievements, I shall begin with a short story.

It is said that there is a taxicab company in Chongqing that owns over 1,000 cabs, but when the city's residents call for a cab they are unable to get one. What is the reason for this? One discovers that the problem lies in management. The company implemented a quota management system, which stipulated a daily business quota of several yuan for each driver. If the driver exceeded his quota, he could earn a bonus. However, the monthly allotment of bonuses could not exceed 10 yuan. If a driver worked hard, he could make the quota in half a day. He would not need to exceed the quota by much to get a bonus and even if he did, he could only get 10 yuan at the most because of this ceiling on the bonus amount. Thus, by the afternoon of each day, drivers became less enthusiastic about working.

The moral of the story is that when you set fixed wages and fixed bonuses, the enthusiasm of staff and workers can become limited. This in reality is the old management method of "eating out of the big pot" and cannot allow the realization of the principle of "distribution according to work." Since this is the case, why is it that many enterprises still want to use the practice of fixed wages and fixed bonuses? Therein lies a reason, which is once you take the lid off the amount that can be given as bonuses, you will no longer be able to control that amount. This may be inimical to the interest of the state. In the past 2 years there has developed a situation in which bonuses are issued equally, which is because there are currently a few enterprises that lack a comprehensive outlook, and do not have in their systems measures designed to protect the national interest, so that these negative aspects have been able to develop. But if, on the one hand, we want to encourage laborers through material benefits to be more concerned with the economic results of their

enterprise, and, on the other hand, we want to insure that the national interest does not suffer, the best method is first to separate the interests of the enterprises from the interests of the state and, moreover, to let the national interest receive real protection. This method is that of substituting taxes for profit delivery. After the state has levied taxes on the enterprises, the enterprise can, within the limits of the law and according to its own situation, distribute its profits after taxes as it sees fit. From this angle it is clear that the "substitution of taxes for profit delivery" is really an important factor in enlivening the enterprises. If enterprises are allowed to operate in this manner, they will be enlivened. It is no wonder that everyone is saying: the substitution of taxes for profit delivery is a key to economic reform. It is so true that once you have the key, the doors to reform will open.

Chongqing's economic reform began with the "substitution of taxes for profits." After this portion of the reform was implemented, the interests of the state were guaranteed, and the enterprises could then autonomously distribute their own profits, which was beneficial to the expansion of reproduction. It was also beneficial to the mobilization of the initiative of staff and workers. After the enterprises began to operate in this manner, the results were obvious. In 1983, after the implementation of the "substitution of taxes for profits," financial revenues increased monthly, and this year revenues were 5.35 percent above quota. The increase in profits for industrial enterprises was even more apparent; after the implementation of the "substitution of taxes for profits," the enterprises' profits after taxes were 60 percent higher than before the implementation of the substitution of taxes for profits. Thus the state's revenues also increased. At the same time, after the implementation of the tax system, the enterprises' enthusiasm for improving management also increased vastly, and this fundamentally changed the situation in which the enterprises were eating out of the big pot of the state. As the entire body of workers realizes, only if we improve management, give full play to the potential of the enterprise and improve economic results will we be able to increase enterprise profits. The relationship between the individual and the enterprise is an intimate one, and this works to the advantage of efforts to establish the feeling by staff and workers that their workplace is their home. According to statistics, in the first 11 months of 1983 the gross value of industrial output of Chongqing's enterprises increased 14.9 percent, and profits increased approximately 26.4 percent. There is a chemicals factory in Chongqing that was a loss-incurring enterprise. After it implemented the "substitution of taxes for profits," it was able to mobilize the initiative of the enterprises. In 1983, not only did it not incur losses, it earned profits. With its new profits it purchased new equipment, thereby further expanding its production capacity. The estimated profits for 1984 were 30 percent higher than in 1983. Nonetheless, the substitution of taxes for profits now being implemented by Chongqing City is only the first step of reform. After its taxes, the enterprise must still increase its existing profits. Soon it will implement the second step of "substitution of taxes for profits." By that time, after-tax profits will be wholly distributed by the enterprises. This should be integrated with the implementation of the comprehensive reform of the financial and tax systems.

After the interests of the state and of the enterprise have been separated, the enterprises will be unable to "eat out of the big pot" of the state. But there is still a problem that has not been resolved, which is that within the enterprises there is still egalitarianism among workers, and workers are still eating out of the big pot of the enterprise. We must smash this "pot," and implement another method. In the rural areas, a new method has already been found, which is a responsibility system linking production to rewards. In industry, will we also be able to implement the responsibility system linking production to rewards or a similar system? Chongqing's actual experiences have given us an affirmative response. The wage responsibility system implemented on a trial basis by the Chongqing No 1 Construction Co provides a fairly good example. The company's method was to combine its construction capacity (through output-value indicators) with its wage content, and to stipulate that the wage content for every 100 yuan of output value was 19 yuan, which was contracted to the construction team by the company. Under conditions of a constant number of workers, if output value increased, the wage content for every 100 yuan would also increase, and the income distributed among workers would correspondingly increase. In this way, the enterprise's "bit pot" that was being eaten out of by the staff and workers was broken.

Of course, the content of Chongqing's economic structural reform does not end here. In accordance with its needs, the long-term objective of the comprehensive reform of Chongqing's economic system is to give full play to the role of the central cities, and to thereby stimulate the economy of the entire southwest region. Therefore, the amount of decisionmaking authority given to Chongqing by the central authorities will be approximately the same as that given to the provincial levels. At present, the five areas of Sichuan, Yunnan, Guizhou, four districts of Guangxi and four districts of Chongqing are arranging a conference to work on strengthening economic relations among their areas.

Does Chongqing possess the necessary conditions to become the economic center of the southwest? Yes, it does. First of all, it has excellent resources. Aside from coal and natural gas, it has a number of different metals, and it has both the Chang Jiang and the Jialing Jiang rivers, both of which are rich in hydropower potential. Second, transportation is convenient. Aside from water transport, it has quite a number of railway lines that extend from there, and it also has a highway network and 12 air transport lines, which could be said to link up the whole province. Third, it has long been an important commercial center, with established scientific and technological capabilities. Fourth, it has an expanding agricultural production base, which can fulfill the demand for grain, fresh vegetables and fresh fruit.

Although Chongqing possesses these superior conditions, they only represent its potential advantages. In order to turn this potential into actual advantages, we must still do a great deal of work. What this means is that we have to grasp the economic potential of this province in our hands by mobilizing the labor force that needs to be mobilized or has yet to be fully mobilized and realize the construction of the four modernizations in a planned and organized way.

Circulation is an important link in promoting commodity production and realizing the law of value for commodities. Because in the past we implemented

administrative responsibility systems, unified procurement and marketing, and monopolized collection, we were unable to give full play to the independent role of commerce in promoting production. After the reforms, we still took care of matters according to administrative means and administrative schedules. There are many levels and many links that turned their backs on commodity circulation regulations, so that the market was dead and the circulation channels clogged. In order to thoroughly change this situation, Chongqing City organized six corporations to jointly establish an industrial products trade center. This center has opened up to all districts and all enterprises, including individual households, and has thereby basically broken open the new current commercial system. It has become the largest wholesale market in the city. All enterprises in all districts can thus bring in their goods for sale without having to seek administrative approval and can operate on the basis of the real situation with respect to commodity circulation, and can come directly to the center to do business. It is understood that from January to March of 1984, there were already over 10,000 visitors from more than 20 provinces and cities who came to negotiate. The total amount exchanged came to over 100 million yuan, and the role of regulation by market mechanism was fully revived. Aside from this, the center worked hard to provide convenient transportation and good service, and received favorable criticism from many sources. Its guiding principle was also to make use of foreign trade enterprises, and therefore was beneficial to the development of both domestic and foreign trade.

In agricultural trade, Chongqing has also implemented a few reform measures. We have attended the rural trade fair put on by the Shuangbei [7175 4301] store of Shaoping Township. It had 12 booth areas, and each booth area provided some retail sheds for the peasants. It had state-run commercial departments with consumer goods, clothing, knitwear and so on. Peasants who sold their agricultural goods could turn around and purchase textiles and light industrial products. The market not only provided sheds but also accommodations and existing materials. It also provided service and consultancy, and the public security departments provided police services. Because management was taken care of properly, the peasants entered the city from the east. Commodities are abundant, the market is brisk, prices have been stable and have even decreased, the price of fresh meat is not higher than that in the state-run enterprises; the price of grain is lower than the stipulated price, and the entire market is very orderly. Chongqing City has already decided to build on the experience of the industrial trade center and the agricultural trade center. It has established an agricultural product trade center much like the industrial trade center. Moreover, it has promoted the use of the methods used in its two trade centers in the cities and towns of the districts, and has formed a circulation network.

Transportation is another important condition for the circulation of commodities. Although Chongqing City is located on the banks of the Chang Jiang, its water transport capacity is actually quite small. In 1982, the amount of goods transported from Chongqing was only 1.3 million metric tons, and the actual portion of total water transport nationwide was only 6.37 percent. The reason for this lies in the fact that water transport along the Chang Jiang is exclusively state-managed, and there is no competition. In the reforms, Chongqing City consciously aided personnel from the original Minsheng Corp in recreating

Minsheng Corp, under collective management and under the supervision of the Chang Jiang Water Bureau, and to provide water transport for commodities. At present, the Minsheng Corp has already established four crew teams, and has started sailing. The significance of using this method does not stop at increasing water transport capacity. Of even greater importance is that it permits and encourages more components to exist side by side, which is beneficial to enlivening the economy. In accordance with this spirit, we are now promoting the imminent establishment of a collective enterprise called the Baoyuan [1405 0955] Trading Co, and have participated in commercial management. From this day forward, these methods will also expand to other areas, and it will be possible to see the appearance of even more collective enterprises. This is an important new reform of Chongqing's economic system.

The use of management based on economic criteria is yet another aspect of the reform of Chongqing's economic system. Prior to the comprehensive reform of the price system, Chongqing has been carrying out a principle of "tightly control major aspects, and loosen up on the minor ones" with respect to price management. It has already opened up prices of 1,000 commodities to market adjustment. Although there is a great variety of these commodities, their total retail value amounts to only 4.5 percent of the total retail value of commodities in the city. According to 1983 statistics for 667 commodities, the prices of 60 commodities had increased, with prices floating upward about 10 percent. There were 40 commodities whose prices had decreased. Overall, the trend was for prices to go down.

In conclusion, Chongqing City's experiments with structural economic reform have been an overall success. In the past year, the city has brought about a completely new situation in its industrial production. Its financial revenues have also exceeded the state plan. Especially difficult to achieve was that for the first time there appeared a favorable phenomenon that had not occurred in many years--the improvement in economic results surpassed the increase in output value. Through such experiments, we have gone one step further in liberating the people's thought, and have done a great deal to encourage the trust and courage of cadres and the masses with respect to reform.

12582
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FOREIGN TRADE AND INVESTMENT

SWEDEN'S PROBLEMS IN TRADE WITH CHINA DISCUSSED

Stockholm SVENSKA DAGBLADET in Swedish 22 Mar 85 p 20

[Article by Holger Nilen]

[Text] Every month a new Swedish business moves into Hong Kong. There are now 65 Swedish offices there. There are 10 more in Peking. China has a fascination. But the experiences of the Swedish businessmen who have negotiated with the Chinese are extremely varied.

"Preferably the Swedish business should hire a Chinese person with a well-known family that goes back at least 20 generations and who understands English. It is also impolite to have a Swede in China who is 60 years old or more, someone in early middle-age according to the Chinese point of view," said Hans Sandberg, senior jurist for Atlas Copco.

He said this to 20 Swedish business leaders at the Royal Viking Hotel in Stockholm during a 3-day course on China arranged by FOSAM (the research cooperation division of Lund University).

Sandberg described how Atlas Copco works with a negotiating trio: a technician, someone responsible for production and a jurist (himself). In a 12-month period the trio negotiated five license agreements for compressors with the Chinese.

Document Everything!

Carl-Erik Akerlund, chief engineer at Flakt Industry, Inc. in Vasjo, works entirely on his own on his trips to China. He recently concluded an agreement on electronic guidance systems for three different factories.

"Carefully define each step in the agreement. Document everything!" Akerlund advised.

The Chinese market is the largest in the world with 1 billion inhabitants. The natural resources are incredible, although they are often fairly inaccessible today. There is also a large pool of expertise. But the many well-educated young Chinese people lack practical experience. They know a lot of things about computers in theory but are unable to deal with them.

The entire infrastructure with subcontractors, telephones and communications, generally functions below par by western standards. All these things contributed to the big problems for the very first Swedish joint venture project (in which Sweden owns half the project and the Chinese the other half). Project engineer Bengt Schroder of Astra Development, who has just returned home after 1 1/2 years in China, is disillusioned.

"If I had been in possession of all the facts before I went there I would have declined the job," he said.

Drug Factory

Schroder stressed special Chinese problems.

"It is almost impossible for one Chinese to check what another Chinese has done. That is why quality takes second place."

The Swedish joint venture firm is called Sino-Swed Pharmaceutical Corporation, SSPC, a production plant for drugs in Wuxi on Lake Tai (2 hours west of Shanghai). The project is a cooperative effort by Astra, KabiVitrum, Ferrossan, Leo and Swedfund with the Chinese. The enterprise, which is expected to provide 800 jobs, is scheduled to start by the end of 1986.

Schroder went to China to oversee the building of the plant, which is 60 by 120 meters, along with housing for three families. He soon realized that the power supply for the factory would be inadequate.

The distribution apparatus was another big problem. Packaging material, raw materials and some finished products are needed for the pharmaceutical industry.

"It is not just that we speak different languages. We think differently," Schroder said.

Setting up this first Swedish joint venture project would probably have functioned better if the planning had been more detailed and if more Swedes had been there in Wuxi, according to Schroder.

In spite of initial problems with joint ventures Swedish firms are very interested in initiating cooperation with the Chinese. For example Kanthal is now negotiating with China on investments in a heating element project.

Chinese deals with other countries have traditionally been based on cash purchases. In the 1920's they bought razors, outboard moters and telephones from Sweden. Today China has $17 billion in the treasury and the Chinese leaders have decided to invest a good deal of it in advanced technology.

The Chinese have also started buying into businesses abroad. The investments are made in order to learn about management and to earn money.

Seven Hundred Joint Ventures

At the same time interest is growing in joint ventures in their own country. There are 700 ongoing joint ventures in all in China today, most of them owned in Hong Kong. A distinction is made between two main forms of cooperation: "equity joint ventures" where two countries invest money and "contractual joint ventures" where one party contributes machinery and equipment.

Sandvik International's project has more of a "contractual" nature. It took 6 years to get the first project set up, according to executive director Hans Forsberg. A hard metal factory was involved.

Sandvik International is negotiating on almost 40 different projects in China. According to Forsberg the firm has received assurances that it will be permitted to name the executive director and the management. The Chinese have also promised that the Swedes will be able to take the profits out. Sandvik will be able to hire and fire personnel too.

On the basis of his own experiences with China Hans Forsberg wanted to dispel some business myths about China.

One is that it is necessary to have an office in Hong Kong. The convenience of Swedish personnel is the only reason for this, according to Forsberg. Offices should be located primarily in Peking.

Some people are concerned about turning over modern technology to the Chinese. An unfounded fear, according to Hans Forsberg. One billion people will need technology for many years, so it will be a long time before there is any risk that competition will affect our own exports.

It is also incorrect to call the Chinese hard bargainers.

"Swedish companies hope for continued good relations with China. Especially since Sweden was the first European country to recognize China as a nation on 9 May 1950 and was also the first to set up a trade agreement with the Chinese."

More Than Business Skills Needed

The course "China Skills--a Way of Increasing Trade with China" has been held on three occasions in the last 7 months. It was arranged by FOSAM (Lund University's research cooperation division).

The course takes 3 days and covers everything from everyday life in China, art, painting, poetry and philosophy to economic, industrial and political developments. Speakers include university researchers from Sweden and Copenhagen, Sweden's Export Council people, bank personnel and representatives of export firms. The fee for the course is 3500 kronor (with a discount for Chamber of Commerce members) and there are around 20 participants.

"If one is to conduct trade with the Chinese in a country with such a different social system and culture it is important to realize that business skills are not enough. When the entire body of knowledge from the universities and the business world are brought together the picture of China is more complete. FOSAM has an important task to accomplish there," stressed Bertil Lundahl, a Sinologist who lived in China for 2 years and is one of the speakers in the China course.

FOSAM also arranges course on other countries, including South Korea and the ASEAN countries (Singapore, Malaysia, Thailand, the Philippines, Indonesia and Brunei).

6578
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FOREIGN TRADE AND INVESTMENT

REFORM OF FOREIGN TRADE SYSTEM DISCUSSED

Beijing GUOJI MAOYI /INTERTRADE/ in Chinese No 12, 27 Dec 84 pp 10-13

/Article by Yuan Wenqi /5913 2429 4388/ and Ge Hong /5514 5725/: "Preliminary Discussion of Need To Reform Foreign Trade System"/

/Text/ In his government work report to the Second Session of the Sixth NPC, Premier Zhao Ziyang clearly pointed out: "To further develop foreign trade, we must gradually reform its system. Foreign trade must have unified leadership and centralized management by specialized departments to do away with the phenomenon of each unit acting on its own. At the same time, we must cater to the new situation...and give wider scope to the enthusiasm of various quarters. Such reform should be focused on two things: One is to help combine foreign trade with industry and technology; the other is to help separate government functions from business management.... Specialized import and import corporations, integrated companies and local foreign trade companies should develop in the direction of specialization and socialization, operate independently and become economic entities with sole responsibility for their profits and losses." This report has clearly pointed out a way of creating a Chinese-style socialist foreign trade system.

The State Council recently approved and transmitted the report of the Ministry of Foreign Economic Relations and Trade concerning opinions on the reform of foreign trade system. The new foreign trade system is free from the modes and parameters of the old foreign trade system, which restricted the development of China's foreign trade undertakings. It has made major breakthroughs in many fields, such as the organizational and management systems and the business style of foreign trade. Therefore, in a sense, the implementation of the new foreign trade system will become a turning point in the development of China's foreign trade undertakings. It indicates the coming of a new leap in the development of China's foreign trade. It has great immediate significance in accelerating China's modernization.

This article is trying to discuss some points concerning the need to further reform China's foreign trade system, from a theoretical and practical point of view.

I. Reform of the Foreign Trade System Is Needed for Developing the Productive Forces of Society in China

The foreign trade system implemented by China since its founding is a highly centralized, state-controleld system enforced mainly through administrative means. We should point out that it was necessary for China to adopt the state-controlled foreign trade system after its founding because during that period China's production was not highly socialized and then international environment posed many restrictions. However, we must also point out that China's foreign trade system to some extent was influenced by a foreign model which maintains that "all foreign trade businesses must be centralized in specialized state organs" ("Political Economy," p 555, 1955 edition of a Soviet textbook by the People's Publishing House). Practice has proved that the model that centralizes foreign trade management power in the Ministry of Foreign Economic Relations and Trade cannot meet the needs of the development of the productive forces of society in China. Especially since the 3d Plenary Session of the 11th CPC Central Committee, China's social productive forces have developed substantially and socialized large-scale production has become more indepth as each day goes by. At the same time, along with the development of the new technological revolution, international division of labor is also developing in range and quality. Such change has demanded that government functions be separated from enterprise responsibility and that local and enterprise enthusiasm and initiative be aroused for engaging in foreign trade. This is an objective demand that gears China's foreign economic relations to such a change. The foreign trade system with highly centralized management power can no longer suit the needs of the development of the objective situation, especially China's need to invigorate the domestic economy, open up to the outside world and vigorously expand foreign trade and other economic relations. Such a foreign trade system, under which government functions and enterprise responsibility are mixed and management power is highly centralized, has become an obstructive factor in opening up to the outside world and developing foreign trade.

According to Marxism, contradictions between production relations and productive forces and contradictions between superstructure and economic bases exist in and permeate every form of society. "The basic contradictions of socialist society are still those between production relations and productive forces and those between superstructure and economic bases. But their nature is completely different from that of the contradictions in the old society." "They are not antagonistic contradictions. They can be resolved continuously through the socialist system itself" ("Selected Works of Mao Zedong" Vol 5, p 373, "On the Correct Handling of Contradictions Among the People").

Foreign trade is an important component of China's national economy and undoubtedly belongs in the field of economic base, whereas China's foreign trade management system belongs in the field of superstructure. Therefore, according to the fundamental tenets of Marxism concerning the harmony and contradiction between social production relations and productive forces and between superstructure and economic bases in socialist society and on the prerequisite of adhering to the socialist system, we must conduct necessary reforms in the field of foreign economic relations concerning a certain link of the superstructure--the foreign trade system--that is unable to meet the requirements of economic

bases. By doing so we can make the foreign trade system suit the needs for rapidly developing China's social productive forces, continuously increasing the degree of production socialization, implementing the open policy and vigorously developing foreign trade and economic relations. Such being the case, the reform of foreign trade system will become unavoidable and a new foreign trade system will therefore be born as the times require.

II. New Foreign Trade System Conforms to the Law of Value

Separating government functions from enterprise responsibility, simplifying administration and delegating power are the focal points of the new foreign trade system which totally conforms to the law of value. Moreover, it has provided necessary conditions for applying the law of value in the practice of foreign trade in China.

Undoubtedly, acting in accordance with the objective economic law should become an important guideline for socialist foreign trade work and all other economic work. China practices a socialist planned economy. Therefore, it must voluntarily follow and apply the law of value which is a basic law governing commodity production and exchange. Since foreign trade is commodity exchange conducted by one country with other countries and such commodity exchange takes place in international markets, China's foreign trade is bound to be conditioned and affected by the law of value. According to Marxist theory on international value, the law of value is still the basic law governing international commodity production and exchange. Aon a worldwide scale, commodity value is determined by the necessary labor time of international society. Commodity exchanges are conducted in accordance with international value. The prices of international commodities fluctuate around international value. Social value, which is determined by the necessary labor time of each country, will become individual value in the scope of the world. It will not be recognized by countries and groups participating in international exchanges for they recognize only international value. Because of this, the role of the law of value on the international market will force countries or areas participating in foreign trade to adopt various measures to improve the production technology of their own countries so as to increase labor productivity, reduce the production cost of export commodities and strive to realize more value in international exchanges.

The practice of foreign trade in China has proved that mixing government functions with enterprises responsibility and the "big pot" foreign trade system, under which the state assumes responsibility for all profits and losses, is the reason why the law of value cannot play its regulatory role in the practice of foreign trade in China. Because, under such a system, specialized foreign trade corporations are concerned first about how to fulfill the import and export plans assigned to them by the departments in charge. They often emphasize the need to fulfill the plans but ignore the role played by the law of value. They do not promote the fulfillment of foreign trade plans by voluntarily following and applying the law of value, thus hindering the improvement of the economic results of foreign trade. By the same token, enterprises producing export goods do not have to use the "average unit of world labor"--the standard yardstick of value on the international market--to measure the export goods of their enterprises and departments. They do not have to improve production

technology, reduce the labor consumption of export goods and increase labor productivity. Consequently, they are bound to reduce the competitiveness and affect the economic results of China's export goods on the international market. This is also an important reason why China's export goods are not competitive and the economic results of China's foreign trade are poor. Nevertheless, the new foreign trade system which separates government functions from enterprise responsibility, simplifies administration, and delegates power has provided necessary conditions for applying the law of value in the practice of foreign trade in China.

In view of the defects of the old system, the new foreign trade system has demanded that government functions be separated from enterprise responsibility, administration be simplified, and power be delegated. Because of this, all specialized import and export corporations, integrated companies and local foreign trade companies will gradually become independent from the subordinate status and from the Ministry of Foreign Economic Relations and Trade, other departments concerned and local units. They will become economic entities that assume sole responsibility for their profits and losses. Under this condition, success and failure of enterprise management will be closely linked to the economic results of enterprises and foreign trade companies. This will inevitably force China's specialized foreign trade corporations and enterprises producing export commodities to pay closer attention to competition on the international market as well as the regulatory role and requirements of the law of value. It can force specialized foreign trade corporations and enterprises which are engaged in the import and export business on a voluntary basis to pay attention to the economic results of foreign trade, spur enterprises producing export goods to carry out technological innovation, reduce the labor consumption of export goods and increase labor productivity so as to make the value of export goods closer to or lower than the international value and achieve higher economic results.

At the same time, the new foreign trade system is free from the old pattern of the unified distribution of export tasks, which can help enterprises and departments producing the same kinds of export goods use the role of the law of value on the international market to compete with and eliminate each other through natural selection, based on the yardstick of international value. This is conducive to exporting the best, developing the export advantages of different enterprises and departments and increasing the ability of Chinese export goods to compete on the international market.

III. A New Foreign Trade System Is Needed for Improving the Economic Results of Foreign Trade and Realizing the Goals of the Development Strategy of China's Foreign Trade

The new system stipulates that all specialized foreign trade corporations and production enterprises with foreign trade management power will become economic entities that assume sole responsibility for their profits and losses and have the unity of responsibility, power and interest, thereby enjoying all business decisionmaking power to which an economic entity is entitled. This will kindle the enthusiasm and initiative of foreign trade companies and enterprises for engaging in foreign trade, enable them to fulfill their tasks of foreign trade

plans under the prerequisite of improving economic results, and achieve and surpass the strategic goal of quadrupling China's foreign trade at the end of this century.

First, after separating government functions from enterprise responsibility, specialized foreign trade companies with sole responsibility for profits and losses and production enterprises with foreign trade management power, in addition to fulfilling major state-assigned export commodity plans, have the right to make flexible export decisions on their own in accordance with the situation of domestic and foreign markets. Because they should conduct independent accounting and assume sole responsibility for the profits and losses of export goods, the state will not be responsible for their profits and losses. Therefore, they must be more anxious to know the international market situation of their export goods, be more conscientious in conducting the investigation and research work of commodity information so as to continue to improve the quality of their export goods in accordance with the demands of international market competition, upgrade and update their export commodities in a timely manner, and improve designs and packing to increase the ability of their export commodities to compete and to invade and occupy the international market.

At the same time, after separating government functions from enterprise responsibility, specialized foreign trade companies and enterprises also have the right to adopt timely and flexible import and export countermeasures in accordance with the varied characteristics of international market situation, and buy and sell import and export commodities at prices most favorable and relatively favorable to China.

The import and export agency system of the new foreign trade system is also an effective way to increase the economic results of foreign trade.

In the past few years, poor economic results in foreign trade were to a large extent caused by the disparity between import prices and domestic transfer prices. Foreign trade departments sold import commodities, whose prices were higher than the prices of their domestic counterparts, to consumers at transfer prices lower than their import prices, thus seriously affecting the improvement of the economic results of foreign trade and resulting in the abnormal phenomenon that foreign trade developed but its economic results declined. At the same time, because the disparity between import and transfer prices was covered by state subsidies, it was inevitable that domestic consumers would rush to import such commodities from abroad, thus affecting the development of production of their domestic counterparts. Implementing the import and export agency system to gradually abandon transfer prices and establish direct links with the import prices of international markets will force those production enterprises which depend on imports to pay attention to conducting economic accounting and not import products which can be produced at home. By doing so we will be able to protect the production of domestic products.

In export, our main business style of the past was to purchase and store. As a result of this business style, the export goods of some enterprises were poor in quality, had high costs of production, and had designs and varieties that did not conform to demand on the international market. Nevertheless, the

old foreign trade system demanded that foreign trade departments purchase all goods including those mentioned above, thereby resulting in overstocking of export goods, which adversely affect economic results of foreign trade.

The import and export agency system of the new foreign trade system can fundamentally overcome the above defect of "eating from the same big pot." It also can encourage enterprises producing export goods to improve the quality, reduce the production cost and improve the design and variety of export goods to make them more marketable on the international market. This will inevitably accelerate the improvement of the economic results of foreign trade.

IV. A New Foreign Trade System Is Needed for the Policy of Invigorating Domestic Economy and Opening Up to the Outside World

Opening up to the outside world is a major long-term national policy of China. It points out the need to vigorously develop China's foreign trade, utilize foreign funds and import advanced science and technology.

To implement the open door policy, we need to arouse the enthusiasm of all sectors including central and local organs, different departments and enterprises. Monopolized management cannot meet this need. By separating government functions from enterprise responsibility, simplifying adminsitration and delegating power, the new system has provided necessary conditions and possibilities for arousing the enthusiasm of all sectors for engagin in foreign trade.

In order to utilize foreign funds more effectively and import advanced science and technology, China has established four special economic zones where different forms of economy are allowed to exist at the same time and most enterprises are joint ventures using Chinese and foreign funds, enterprises with cooperative management and enterprises using foreign funds only. China has also adopted some special economic policies in 14 coastal cities. Since special economic zones and open coastal cities utilize foreign funds and import advanced science and technology directly or indirectly through foreign trade, and Chinese-foreign joint ventures and cooperative enterprises in these areas produce their products mainly for export, Chinese-foreign joint ventures and local foreign trade enterprises must have the right to make their own business decisions. Separating government functions from enterprise responsbility, simplifying administration and delegating power can help all foreign trade companies gradually become independent from central and local authorities to which they originally belonged, thus creating necessary conditions for the development of special economic zones and open coastal cities. The economic prosperity and development of special economic zones open coastal cities will inevitably help invigorate the domestic economy. Moreover, through the "window" of special economic zones and 14 coastal cities, we can gradually transfer the newest imported technology to inland China to help accelerate the technological transformation of technologically backward enterprises and the development of fledgling industries in China.

At the same time, the development of China's foreign trade undertakings will inevitably accelerate the development of domestic commodity production and exchange, thereby further invigorating the domestic eocnomy.

In addition, under the new foreign trade system which is based on unified leadership and centralized management by specialized departments, the Ministry of Foreign Economic Relations and Trade exercises on behalf of the state the function of managing foreign trade work to overcome the phenomenon of each unit acting on its own. This is an organizational guarantee for exercising unified leadership over foreign trade. It is also needed for opening up to the outside world and developing foreign trade. Unified leadership in foreign trade is a principle that must be followed by all foreign trade enterprises and production enterprises with foreign trade management power in China.

In sum, the reform of the foreign trade system is needed for the development of the objective situation. It is a major reform in China's economic system, and its orientation is completely correct. It will exert farreaching influence not only in the sector of foreign trade but also in other economic sectors. Of course, new contradictions and problems will arise in the process of implementing the new foreign trade system, but they are unavoidable in the progress of new things. We are deeply convinced that in the process of continuous exploration and innovation, the new foreign trade system will exercise its mighty power to help China further open up to the outside world and create a new situation in the development of foreign trade.

12302
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FOREIGN TRADE AND INVESTMENT

SICHUAN INTERNATIONAL COOPERATION TALKS CONCLUDE

HK110151 Chengdu Sichuan Provincial Service in Mandarin 1100 GMT 10 Apr 85

[Excerpts] The provincial planning and economic commission, foreign affairs office, foreign economic relations and trade department, science and technology commission, and trade promotion office, the Sichuan branch of the Chinese People's Association for Friendship With Foreign Countries, and the provincial Overseas Chinese affairs office and federation of returned Overseas Chinese held a reception this evening at which the successful conclusion of the Sichuan international economic and technology cooperation and trade talks was officially announced.

A total of 1,100 foreign guests, businessmen, and Hong Kong and Macao compatriots from 28 countries and regions attended the talks. Outstanding results were achieved in economics and trade. By 10 April, 170 economic and technological contracts had been signed, involving a total sum of $210 million and including $80 million in foreign investment and $45 million in export trade business. Discussions are continuing on some further economic cooperation projects. These discussions are not affected by the conclusion of the talks.

Vice Governors He Haoju and Jiang Minkuan and provincial government Secretary General (Jiang Zeping) attended the reception.

(Ding Hongsheng), director of the provincial foreign economic relations and trade department, spoke at the reception. He said: These talks have achieved full success and reached their predicted goal. I am now authorized to announce the victorious conclusion of the talks. Although the talks have now ended, we are unswerving in our resolve to carry out the policy of opening up to the world. Our economic and technological cooperation and trade exchanges with foreign countries and the Hong Kong and Macao regions will be long term. The gate of the heavenly land is always open to our friends.

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FOREIGN TRADE AND INVESTMENT

NEW TYPE CATAMARINE BOATS FROM NORWAY

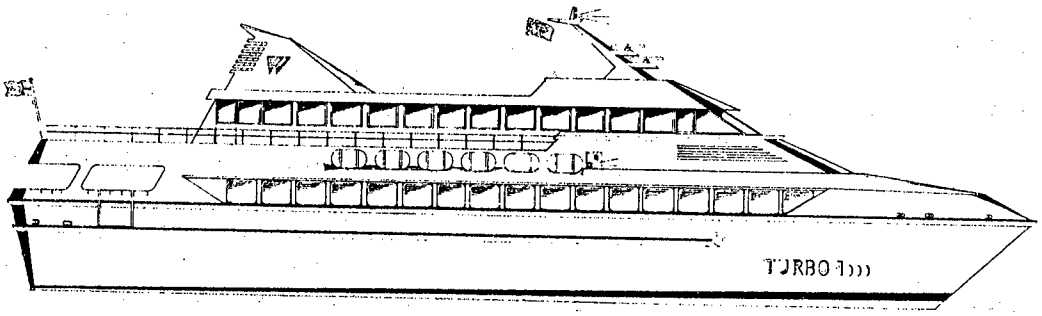
Oslo AFTENPOSTEN in Norwegian 2 Apr 85 p 12

[Text] The boat maker firm Westamarin A/S, located in Mandel, has been awarded a contract worth 40-45 million kroner for building of two coastal passenger vessels of the Westamaran 100 type for the Chinese Pudu Shipping Enterprises, Ltd.

The Mandal firm has around 70 employees, but intends to hire another 25 persons in connection with the contract. The vessels--each of which will hold 350 passengers and provide a speed of over 30 knots--will be delivered in November of this year and February of next year.

"This is a great sales coup for us," said Administrative Director Torrey Norsett to AFTENPOSTEN. He stated that this is Westamarin's first order from China and thinks that it opens up opportunities for others.

The vessels have an overall length of 36.30 meters, a beam of 9.8 meters. They will be based on an entirely new design as concerns the superstructure.



Caption: The superstructure on the two vessels will be based on an entirely new design, as shown in the sketch.

CSO: 3639/104

FOREIGN TRADE AND INVESTMENT

JIANGSU'S CHANGSHU REPORTS SUCCESSES IN COORDINATING FOREIGN TRADE

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 9, 27 Sep 84 pp 34-35

[Article by Wei Tian [7614 3944] and Lu Yunchang [7120 0336 2490]: "Cities and Countryside Unite To Develop Foreign Trade"]

[Text] Changshu Municipality of Jiangsu Province is situated in the watery country south of the Chang Jiang. It has a population of 990,000, of which agricultural population accounts for 880,000; it has 1.06 million mu of arable land, at an average of more than 1 mu per person.

Since the Third Plenum of the 11th Party Central Committee, under the guidance of the policy of opening to the outside world and enlivening our economy, Changshu Municipality's urban and rural economies have further prospered. In 1983, its total output value of industrial and agricultural production was 2.07 billion yuan, with an average income of 447 yuan for each peasant. The development of this industrial and agricultural production has promoted the expansion of its foreign trade. In 1983, Changshu Municipality supplied more than 130 million yuan of export goods for foreign trade; of these, purchases calculated through local foreign trade companies were valued at more than 107 million yuan. Such export goods for foreign trade have already made up 6.3 percent of the total value of its industrial and agricultural production; calculated according to the total population of the municipality, the per capita supply of export goods was rated at 131 yuan. The development of its foreign trade has injected new blood into Changshu Municipality's urban and rural economies and enhanced the new vitality of enlarged social reproduction.

Prior to the establishment of the PRC in 1949, Changshu Municipality had only a small quantity of lace products and indigenous products for export. At present, the export commodities provided to the state by this municipality have already expanded to 12 categories, including foodgrains and oils and foodstuffs, indigenous products, animal products, textiles, silks, clothing, light industrial products, arts and crafts, metals and minerals, chemicals and medicines, machinery, machinery equipment, and the like in 106 varieties, which are sold far and wide to over 80 countries and regions. In the Changshu Municipality of today, the urban and rural population participating directly or indirectly in the production of export commodities has already exceeded 200,000. This ancient county seat south of the Chang Jiang has become a richly endowed conprehensive foreign trade production base.

In the process of developing its export industrial products, Changshu Municipality dared to break the ownership boundaries and adopt the form of having large factories spurring on the small ones and the cities spurring on the countryside in organizing an integrated production process for its export commodities. Today, export industrial commodities that have taken on this integrated production process have already expanded to 11 categories of lace tableclothes, sweaters, cloth dresses, silk dresses, hosiery, leather products, handicraft hats, redwood products, embroideries, knotted products, and printed notebooks. These products with indigenous characteristics are, according to the production processes, so divided so that the initial stage (designing, cutting out of patterns, and materials cutting) and the finishing stage (sorting out after ironing, packing, and shipping) are handled in the urban districts, whereas the middle stage (sewing, embroidering, and axiliary processing) is handled in the districts and townships, where such district and township enterprises themselves may do the processing, or, through them, the vast ranks of the peasant households may be organized to do it. This helps create the form of a loose worker-worker and worker-peasant coalition for production, which makes urban enterprises and the district and township enterprises mutually profitable and beneficial so that they can develop together. According to available statistics, the aforesaid first-stage factories have in 1982 completed an industrial output value of 99 million yuan and realized a profit of 10.01 million yuan, submitted 7.2 million yuan of taxes and thus accomplished their tasks of supplying their targeted export commodities to the state. Meanwhile, there are now 173 district and township enterprises which have been spurred on by these initial-stage factories in the cities, plus 180,000 staff and countryside embroiderers. In 1982, these initial-stage factories altogether issued 26.2 million yuan of incentive money.

Changshu's strategy of uniting cities with the countryside to develop foreign trade has already yielded superior results:

First, it is conducive to fully exploiting the strong points of the economies of both the cities and the countryside and also has stimulated the development of these districts and townships. This integrated production process, from the perspective of the urban factories, is equivalent to workshops which are set up in the countryside without requiring any investment or formal organizationrsonnel. It solves problems which, as they emerge in the production development process, are usually hard to solve, such as requisition of land, investment, expanded housing, and expanded staff on the one hand and avoids urban inflation on the other hand. From the point of view of the districts and townships, under the condition of meager per capita possession of arable land, labor resources are fully utilized whereas the district and township enterprises continue to grow. In their apare time or during slow farming seasons the vast ranks of the peasant households can also engage in various industrial and sideline enterprises in order to enhance their income. Also, conditions for this kind of integrated production process, with the districts and townships spurred on by the cities and the small factories spurred on by the big ones, are far more advantageous compared to those for the districts and townships running their own factories, whether in terms of capital, technical equipment, or with respect to production, supplies, and sales. With a product as the initial stage, and the cities and the

countryside united together through a definite form, both sides can demonstrate their respective strong points and promote the coordinated development of their export products.

Second, it is conducive to raising the quality of products and enabling indigenous export commodities to further enter the international market under the premise of both improved quantity and improved quality, with quality enjoying the upper hand. Because of the practice of urban-rural teamwork and coordinated production, the urban districts, where the initial stage of production is handled, can freely concentrate their enery on innovative design of their products, quality inspection of the various production links, and technical assistance, whereas the part issued to the districts and townships, because their production process is usually rather monotonous, and their technical requirement quite clear, plus the fact that the initial-stage factories in the cities give them technical and equipment support, they too can achieve stability in the quality of their products. Among the 11 integrated production processes for export products in Changshu Municipality, the "A-brand laced tablecloths" produced by the municipal lace factory have been honored by the state with a gold award; the "Plum-skinned Deer-brand handicraft children's wear" produced by the municipal clothing factory No 1, the "redwood carved products" produced by the municipal wood works factory, and "embroidered silk dresses" produced by the municipal embroidered clothing factory, the "sweaters" produced by the municipal knitted wears factory, the "handicraft hats" produced by the municipal hat factory, and the "gift notebooks" produced by the municipal printing plant have all earned praise and compliments from the concerned departments of the central government and Jiangsu Province, and they have also won a definite reputatinon in the foreign market.

Third, it is conducive to being included in state planning, enhancing urban-rural relations, and meeting the requirements of foreign trade and export. The 11 initial-stage factories that handle integrated production of its export products in Changshu Municipality and the products they manufacture are today all listed by the state or the pertinent provincial departments, including the foreign trade departments, as fixed-point production enterprises and products, which are included in the channels of state planning. The district and township enterprises which are linked to them become thus also indirectly included in the state plan; their production tasks become relativelyt stabilized. Between the initial-stage factories and the district and township enterprises there emerges a mutually complementing and interdependent relationship. Common goals and common interests have determined that both sides take the difficulties of each side as the difficulties of the other, and the development of each side as the development of the other. Because of the establishment of such a relationship, both sides are able to coordinate with their respective foreign trade departments and seriously follow the mandated requirements for product quality, product specifications, packing, and date of delivery by the foreign trade departments in order to succeed in doing their best to make their products "new," their quality "fine," and their delivery date "fast," and thereby further bring about a new situation in their production and export.

The birth and development of Changshu Municipality's integrated production process for its export commodities has been an inevitable outcome of the objective laws of our socialist economic development; it has also been a direct result of our insisting on adapting to local conditions in developing our urban industries and district and township industrial and sideline enterprises. When the orientation is correct, the future path becomes wide. How should the integrated production process be carried out? Changshu Municipality's experience is this:

1. There must be a good initial product. This is the key to integrated production. If a product is to open up its sales and occupy its place in the market, it must have a new design, be of good quality and plentiful in production, and capable of timely delivery. In this regard, the urban factories--because their technical strength is quite abundant, their production methods advanced, the channels of their supply of capital numerous, and their sales avenues broad--quite naturally have assumed the heavy responsibility of initiating the integrated process. When the head of a dragon leads well, the rest of it thrives.

2. Points of deployment for the middle stage must be selective. Utmost effort should be made to select district and township enterprises that already possess a definite production base, that enjoy good communications and transportation, and that are willing to play a secondary role. As they produce regularly for the initial-stage factories, and thereby turn their products into "hot-selling items," they begin to play an auxiliary and promotional role.

3. The initial-stage factories must help the second-stage factories in respect to management and equipment, regularly adopting the approach of inviting their people to come in and dispatching their own people to go out in organizing necessary training and assistance to help the industrial and sideline enterprise personnel of the districts and townships to improve their technical level and their management level. At the same time, in respect to equipment renewal and transformation, they must also give necessary support so as to improve the second-stage factories in their production conditions and thereby promote the development of integrated production toward still a higher level.

4. Adhere to mutual assistant and mutual benefit. The initial-stage factories must do their best to allow the second-stage factories to enjoy better economic results. Their processing fees must be reasonable and accounts should always be squared on time. When the initial-stage factories face difficulties involving funds and production targets, the second-stage factories must also think of the difficulties of the other side and adopt certain flexible approaches to rescue the initial-stage factories from danger.

9255
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FOREIGN TRADE AND INVESTMENT

IMPROVING ACCOUNTING, MANAGEMENT OF SHIPPING FEES URGED

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 9, 27 Sep 84 pp 60, 35

[Article in "Business Research" column by Kong Jie [1313 2638]: "Strengthen Our Shipping Fess Accounting and Management"]

[Text] Commodity circulation in international trade is not the same as in doestic trade, primarily because the distance involved is greater and more varied modes of transportation are required. Its characteristics are long transportation segments, broad areas covered, and more complex situations; the influences of the political situation, the international market, geographical environment, time, and climate; and its reliance on certain definite conditions in order for successful accomplishment of its function. The fees that come with it are also diverse. In international trade, the responsibilities have long been clearly divided; these are namely price indicators such as FOB, CIF, C & F, etc., which directly affect the price, exchange rate, and export cost. For this reason, as far as transportation links are concerned, it is necessary to resolutely implement the "safe, speedy, accurate, and economical" prinmciple, by adopting various measures, such as:

I. Conscientiously Auditing Transportations Fees

Transportation fees are an important component of the pricing of export commodities. In the case of many commodities, transportation fees make up a considerable proportion and they must be conscientiously audited to make sure that they are reasonable. Where a commodity gets sold, through which shipping lanes it passes, and which port is selected for delivery are all very important. With the slightest carelsssness or improper selection, the expenditure for transportation fees can greatly increase or even time and opportunity be lost, unnecessary risks taken, resulting in waste and increased export loss.

Take ordinary chemical sodium bicarbonate, whose sales price is rather low, as an example. It is generally better to sell it in areas near the sea. In theport of Karachi in the Persian Gulf, for instance, if it is sold at the CIF price of $160 per ton, minus the transportation insurance charge of $43, the new port price of a ton becomes $117, with transportation fees making up 36 percent of the FOB price. If it is sold in America's Houston at the CIFC

price of $250 per ton, it looks from the surface that it has a $90 increase compared to the sale at Karachi. Yet transportation fees alone require $149, minus another $9 for insurance and commission; the new port price of a ton has only $92 left, with trasnportation fees making up 162 percent of the FOB price. This is obviously not a good bargain. Overlooking this point is bound to lead to increased losses. There are other commodities which would have not much left after their transportation fees are all paid off; the result is that the greater their export volume, the greater would also be the state's economic losses which they create.

II. Carefully Concluding Transportation Clauses

Transportation clauses include packing-effective period, loading and delivery ports, batches, relay connections, and so on. They also relate directly to transportation fees expenditure; when a deal is concluded, if the slightest neglect is involved or the division of responsibilities is not made clear, economic losses will result, or even the fulfillment of the original contract might be jeopardized. There are plenty of lessons in this regard, such as in the selection of destination ports.

Oceanic transportation depends on ports for loading and unloading. Conditions at each country's ports are different, and the surcharges at various ports themselves are also different. Following normal rules, efforts should be made to select basic ports where conditions are good and surcharges are few. Even when ports belong to the same country, transportation fees at a major port, compared to those at a minor port, are usually different, or the difference between them can be very great. For instance, in the case of Malaysia, it has 10-odd export and import ports, but only Port Kelang and Penang are major ports; all the rest are minor. The same kind of chemicals going to Port Kelang and Penang would require the payment of only one-way fees of $33, and there can be two voyages each month, the sailing period of each about 8-10 days. When going to the minor ports of Malacca or Sarawak, apart from paying the one-way fees of $33, one must also add the roundtrip fees of $21, with a transfer at Singapore; the length of the voyage would also be prolonged. If going to ports like Miri and Tawau, a further transfer is required and transportation fees for a third leg of the trip must be paid. The case in other countries and areas is similar. In northern Europe there are certain ports where surcharges are as high as 115 percent, or at least 20-60 percent; therefore, the destination port selected is also important. In other respects, during the effective loading period, whether or not goods may be divided into different batches or transferred to other ships also has much to do with the payment of transportation fees. This, too, should be treated carefully.

III. Readjusting Classes of Transportation Fees, Striving To Have Commodities Listed

Along with the continued development of our national economy, there have been continued increases in the volume of our exports, especially in chemicals. The chemical industry is a new industry in China whose quantities continue to increase and varieties expand year after year. In our attempt to achieve quadrupling, the chemical category makes up a considerable proportion, as its

volume of exports starts to increase; along with this the amount of expenditures, too, would increase. How to improve our economic results and save foreign exchange expenditures, what should be the reasonable amount of these dual burdens for our ships and our goods is something which merits our exploration. Existing transportation fees should be be improved along with the development of our export operations. In the chemicals category in particular, its varieties are diverse and their makeup complex; there are both general chemicals and also many kinds of dangerous products. At least one chemical is included every one of the 20 transportation categories. In order to divide the classes of their transportation fees, we should conscientiously study and rationally readjust them. The chemical industry system pays a great deal of attention to this task, as it has done a lot of work with respect to the listing and readjustment of the classification of commodities. For example, the classification of plastics (high pressure polyethylene, polyvinyl chloride, polypropylene, etc.), because their listing at first did not clearly specify them as definitely belonging to the M10 or M11 class for sure, whereas when analyzed from the nature of the commodities and other factors, a M10 classification would be also too high, after repeated discussions with, and appeals to, the concerned circles, a determination was finally accepted by all concerned circles that transportation fees for the category of plastics should be calcaulated at the rate of the M8 class; this has served to save a lot of foreign exchange expenditures. The degree of difficulty of this task is very great, and there are numerous links involved. But it is very important, and it demands our attention.

IV. Improving Packing, Compressing Volume, and Rational Loading

The counting unit for oceanic transportation fees is the mark "W" based upon weight, with metric ton as the unit, or the mark "M" based upon volume, with a cubic meter as the counting unit, or the greater of the two. Generally speaking, except in the case of metals, volume is higher than weight; hence whether the volume or the measuring operation is accurate directly relates to whether or not transportation fees are accurate and reasonable; this is also an aspect in transportation work that cannot be overlooked. Therefore, in the case of commodities inprecisely packed, we must seek improvement. We have carried out reform with regard to polyvinyl chloride, compressing from the original volume of 3,120 cubic meters for every metric ton of such commodity to 2.110 cubic meters, at a saving in transportation fees of one-third for every metric ton. With several thousand tons exported each year, the savings become considerable. Similarly, there are today still certain barrel-packed goods which fail to fill up the barrels; transporting empty barrels obviously wastes transportation fees. While improving our packing, we must at the same time demand technical reform, making sure that when they are packed the barrels be solidly filled.

These considerations are but a few aspects of our effort to save on transportation costs; but there is still plenty of work to be done. To sum up, we must consistently implement the policy of increasing our production and enforcing economy, earnestly improve our economic results, and create greater wealth for the construction of our four modernizations.

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FOREIGN TRADE AND INVESTMENT

FUNCTIONS, FORMS, CONTRACTS OF REINSURANCE DISCUSSED

Beijing GUOJI MAOYI WENTI [INTERNATIONAL TRADE JOURNAL] in Chinese No 6, Nov-Dec 84 pp 34-41, 63

[Article by Lei Rongdi [7191 2837 6611]: "Reinsurance"]

[Text] I. The Meaning and Functions of Reinsurance

Reinsurance, "zai bao xian" [0375 0433 7145], also called "fen bao" [0433 0202], is by some also called "insurance of insurance." It is a kind of insurance transaction whereby the insurer, to spread the risk, transfers all or part of the risk which he has contracted to be responsible for to another insurer against the payment of a certain insurance premium, so that he may be able to recover form the other insurer all or part of the loss in case of a claim for which he is responsible.

There are two parties to the reinsurance contract: one is the original insurer, also called ceding company, the party who transfers the contracted risk to another party; the other is the reinsurer, also called ceded company, the party that takes on the risk contracted for by another party. Because it is a contracted risk that is transferred between the two parties of the reinsurance, the reinsurance transaction is in essence a kind of liability insurance.

In the same way as for the original insurance contract, the prerequisite for the conclusion of a reinsurance contract is an insurable interest. The prerequisite for the original insurer being able to conclude a reinsurance contract with the reinsurer for the transfer of the insurance liability is that the insured liability--the insurance object--must be an insurable interest.

A reinsurance transaction is a transaction merely between two insurance underwriters. There is no direct contractual relation between the reinsurer and the party insured by the original insurance, and the two parties to the reinsurance contract have no right to direct demands of rights or obligations against any other party. In case of loss, the party insured by the original insurance has no right to claim compensation from the reinsurer, and the reinsurer also has no right to ask for payment of an insurance premium from the party insured by the original insurance.

Reinsurance is an indispensible organic part of the insurance business. For every insurance organization that is engaged in direct insurance business, regardless of its financial capacity, it is absolutely necessary to spread the risk by means of reinsurance in order to lighten its contractual insurance liability. Especially in modern times, with their rapid development of production and trade, with the highly concentrated values of insurance objects, with the greater frequency of traditional dangers and the continuous increase in new types of dangers that present special demands as to security and safeguards, the importance of reinsurance has become even more conspicuous. The insurance companies of all countries now undertake reinsurance, and reinsurance is not restricted to the limits of one's own country. For extremely large insurance transactions it is often necessary to go outside of one's own country and place reinsurance in a number of other countries. Reinsurance has, therefore, become an international business, and many reinsurance companies and reinsurance groups, specializing in reinsurance business, have come into being in the international field. According to reports in foreign publications, the total amount of premiums for reinsurance received in 1979 by the 11 largest specialized reinsurance companies reached internationally the sum of over $10 billion.

Prior to liberation, China's reinsurance business, in the same way as direct insurance business, was controlled by imperialists and was of a bureaucrat-comprador character. Not only was all reinsurance business depending on foreign merchants, but the provisions of all reinsurance contracts, insurance premiums, etc, suffered contrraints by foreign merchants. After liberation, in accordance with a resolution of the State Council at the time, the Chinese People's Insurance Co was officially established on 29 October 1949, and insurance business became a monopoly of the state, while reinsurance abroad from then on also became an important organic part of the state's insurance business. Up to 1981, China had established reinsurance relations with over 1,000 insurance and reinsurance companies in 120 countries of the world.

The following are the main purposes pursued by China in launching reinsurance transactions in the international market:

A. Spreading the risks and guaranteeing the stability of insurance business and its further expansion:

China's import and export goods as well as other assets are generally of large quantity, of high value and exposed to intensive dangers. For instance, the insurance value of the goods on a fully loaded freighter on the high seas can be from several million to several tens of millions of British pounds. A Boeing 747 of our civil air fleet is worth $50 to $60 million for the aircraft alone; add to it the legally prescribed passenger liability and public liability insurance and the value can go up to $400 million. In the offshore oil explorations undertaken by Chinese-foreign joint companies, the value of one oil drilling platform is several ten million dollars; add to it liability insurance for blowouts, oil pollution and other risks and the insurance amount can go up to several hundred million dollars. For huge insurance liabilities like these, not one insurance company in the whole world can single-handedly undertake the insurance. However, if we pay a certain insurance premium and

take up reinsurance in foreign countries, we are able to spread the risk, control our liability to within certain limits and avoid that liabilities for huge losses could one day have an enormous adverse effect on our whole insurance business.

B. Saving and absorbing foreign exchange funds:

Although our insurance companies will have to pay certain insurance premiums to foreign insurance companies when taking out reinsurance abroad to spread the risk, it will be possible to recover huge amounts of foreign exchange from the foreign underwriters in case a loss is suffered in the insured assets. It will also make it possible, due to the function of reinsurance of spreading the risk, for our insurance companies to expand their business of underwriting insurance to safeguard our import and export commodities, ships and property concerned, thereby reducing the need for departments concerned to entrust insurance to foreign companies, thus saving large amounts of insurance premiums that would otherwise have to be paid in foreign currency.

Moreover, while our insurance companies share out reinsurance business, they are also taking in large amounts of reinsurance business from foreign insurance companies. One part of this reinsurance business taken in is received in exchange for reinsurance shared out by our insurance companies, another part is insurance business entrusted to us by foreign insurance companies, especially by the insurance companies of Third World countries intent on spreading their risks. Our insurance companies can every year absorb certain amounts of foreign exchange funds from the reinsurance business that is in this way shared out to us.

C. Promoting our foreign economic and trade relations:

Just as in the case of direct international insurance business, international reinsurance business provides channels for the development of China's foreign economic and trade relations. In our international reinsurance business, as we mutually take in and share out reinsurance business from and to the insurance organizations of the various countries concerned, we are transferring and spreading insurance liabilities that exceed our own insurance capacities, and this actually amounts to collecting otherwise scattered insurance funds and forming them into a huge insurance fund that can cope with the risks of enormous losses. In launching this line of business, China is, therefore, furthering economic and trade relations between China and the other countries involved, especially by taking in and sharing out business with the countries of the Third World. Economic and trade relations between China and these countries are thereby being promoted, and these countries are being supported in their resistance against the manipulation and the monopolizing of their insurance business by Western capitalist countries. For instance, at the time when the British and French aggression against the Suez Canal occurred in 1956, China accepted reinsurance business from Egyptian insurance organizations and jointly with them carried the war risks, thereby not only supporting the Egyptian national insurance business, but also supporting Egypt in its resistance against aggression and in the protection of its national sovereignty.

In the capitalist countries, the purpose of the capitalists in engaging in reinsurance--the same as their purpose in engaging in direct insurance business--is to snatch a portion of the surplus value away from the production capitalists through the compensatory function of insurance and as a result of such business operations. For a long time, the monopolistic insurance groups of the Western capitalist countries manipulated and controlled the reinsurance business of certain developing countries and drained from these countries huge amounts of foreign exchange. According to statistics of the UN Economic Commission for Asia and the Pacific, the amount of reinsurance funds that flew out of the Asia-Pacific area in 1981 was more than $735 million.

II. The Different Categories of Reinsurance

According to the distribution pattern of the insurance liability between the original insurer (the ceding company) and the reinsurer (the ceded company), we can distinguish basically two categories of reinsurance, namely, proportional reinsurance and nonproportional reinsurance (also called excess of loss reinsurance). The former takes the insurance amount as basis for the distribution of liability; the latter takes the amount of the indemnity as basis for the distribution of the liability.

A. Proportional Reinsurance

Proportional reinsurance refers to a reinsurance method where the contract concluded between the primary insurer and the reinsurer stipulates that they share the insurance liability according to insurance amount, and where the reinsurance premium is calculated according to the share of liability underwritten by the reinsurer. There are mainly two kinds of proportional reinsurance methods, namely, quota share reinsurance and surplus reinsurance.

1. Quota Share Reinsurance

The quota share reinsurance is the representative form of proportional reinsurance. In this form of reinsurance the primary insurer and the reinsurer conclude a reinsurance contract that stipulates that the primary insurer has to share out a portion of the insurance amount of every risk that he underwrites at a certain rate and that the reinsurers must accept the risks at this proportion. The payment of the relevant insurance premium and the liability for payment of indemnity are also handled according to this proportion.

When this form of quota share reinsurance is adopted, the primary insurer can at the same time sign reinfurance contracts with a number of reinsurers regarding the same risk and share out liabilities among the different reinsurers in different quotas. For instance, a primary insurer may decide to retain 20 percent, share out 30 percent to reinsurer A, 25 percent to reinsurer B, 15 percent to reinsurer C and 10 percent to reinsurer D, a total of 100 percent. If we assume in this example that the primary insurance amount is $15 million, the liability among the primary insurer and the various reinsurers is distributed as follows:

Insurance Amount	Retained by Primary Insurer	Liability of Reinsurers			
		A	B	C	D
(100%)	(20%)	(30%)	(25%)	(15%)	(10%)
$15 million	$3 million	$4.5 million	$3.75 million	$2.25 million	$1.5 million

Sometimes the reinsurer wishes to limit his liability to within a certain scope and for this reason stipulates, in addition to his proportional liability, a maximum amount of liability for each risk that is being underwritten. Assuming the same insurance amount and distribution ratio as in the above example, while the maximum insurance amount of each risk is limited to $10 million, the distribution of liabilities between primary insurer and reinsurers would then be as follows:

Since the maximum is to be $10 million, there would be an excess of $5 million in the above example. With regard to this excess, the primary insurer can transfer the risk by arranging a temporary reinsurance or excess reinsurance or he can decide to retain the risk himself.

(Amounts in $ million)

Insurance Amount	Retained by Primary Insurer	Liability of Reinsurers				Excess
(100%)	(20%)	(30%)	(25%)	(15%)	(10%)	
15	2	3	2.5	1.5	1	5

As the liability distribution among primary insurer and reinsurers in the case of quota share reinsurance is clearly and definitely stipulated in the insurance contract, it shows the following advantages for the parties concerned:

As far as the reinsurer is concerned, it first of all establishes a joint liability of primary insurer and reinsurers regarding one and the same risk, their gains and losses are the same, so that the primary insurer when underwriting a risk is bound to handle the selection with great care, will thereby be able to raise the quality of business he takes in and reduce the risk for the reinsurer in the reinsurance transaction. Second, through stipulations in the reinsurance contract regarding the distribution of liability, the reinsurer can count on receiving continuously a steady share of reinsurance business.

As far as the primary insurer is concerned, it first of all ensures that each risk is participated in by a reinsurer, which is a safeguard as far as the spread of the risk is concerned, and which is very beneficial in cases of underwriting highly risky business. Second, the relevant insurance liability, reinsurance premium and insurance indemnities can all be calculated according

to a ratio contractually agreed upon by both sides. This will simplify procedure and save business and management expenses.

Although quota share reinsurance has all the above-mentioned advantages, it also has the following disadvantages for the primary insurer: First, since the share retained by the primary insurer is fixed, he cannot increase this share if he meets with favorable business prospects, whereby he could increase his own income from insurance premiums. In case of unfavorable business, he also cannot reduce his share of retained insurance to reduce the liabilities he has to bear. In capitalist countries nowadays, financially strong insurance companies are generally disinclined to use the form of quota share reinsurance, as it is inevitably linked with the above-mentioned drawbacks. Second, distribution of liabilities according to a certain ratio cannot achieve the objective of spreading extraordinarily large risks. Especially where the risk that has to be underwritten is particularly great and where the reinsurance contract stipulates a limit for the maximum amount of insurance, the primary insurer must rely on one further step for coverage of the excess amount on other forms of reinsurance as the only means to completely eliminate the risk.

2. Surplus Reinsurance

Surplus reinsurance is one type of reinsurance, stipulated in a surplus reinsurance contract signed between the primary insurer and the reinsurer, stipulating that whenever the insurance amount in any one risk exceeds the retention of the primary insurer, the excess shall be automatically apportioned to the reinsurer.

The retention amount of the primary insurer is the amount of liability that the insurer himself has to assume in each risk, before any liability is apportioned to the reinsurer. The determination of the size of this figure is generally based on the quality of the business; it is a low figure when the loss ratio is high and danger is great, in the opposite case the retention is kept high.

The maximum to which the reinsurer assumes responsibility is generally indicated by a "line" figure or by a unit, where the "line" one is equal to the retention amount of the primary insurer. For instance, if the retention amount of the primary insurer is $100,000, and the contract stipulates a third "line" surplus reinsurance, it means that the amount assumed by the reinsurer is $300,000, that is, the amount of $300,000 above the retention amount. Because the maximum liability of the reinsurer in a surplus reinsurance is a certain multiple of the retention amount of the original insurer, surplus reinsurance is one type of proportional reinsurance. In surplus reinsurance it is possible in cases of extremely large insurance amounts that the primary insurer will, in addition to the first surplus reinsurance, also contract with other reinsurers for a second or a third surplus reinsurance. However, the second surplus reinsurance can only be taken out for an amount that exceeds the retention amount plus the first surplus reinsurance; the third surplus reinsurance can only be taken out for an amount exceeding the second surplus reinsurance. For a better understanding, the following table will explain the distribution of insurance amounts between primary insurer and reinsurers in the case of surplus reinsurance:

(in U.S.$)

Examples	Original Insurance Amount	Retention of Primary Insurer	Surplus Reinsurances		Other
			First (line 3)	Second (line 2)	
A	600,000	100,000	300,000	200,000	-
B	750,000	100,000	300,000	200,000	150,000

Under example A in the above table, the contract stipulates the primary insurer's retention amount to be $100,000, the first surplus reinsurance to be "third line," i.e. 3 times the retention amount, or $300,000. As the original insurance amount exceeds the retention of the primary insurer plus the first surplus reinsurance, a second surplus reinsurance has been taken out. Assuming that the second surplus reinsurance was limited to "second line," it amounts to $200,000. This figure is just right to take care of the excess over and beyond the first surplus reinsurance. In example B, we have assumed the same stipulations in the contract as in example A for the retention of the primary insurer and for the first and second surplus reinsurances, but have assumed an original insurance amount of $750,000. Because the original insurance amount exceeds the totals of the retention of the primary insurer plus the first and the second surplus reinsurances, the excess (the figure in column "other") must again revert to the responsibility of the primary insurer, who may either retain the risk himself or share it out by means of a temporary reinsurance.

In cases of reinsurance where the insurance amount is made the basis for the distribution of liabilities, surplus reinsurance is the earliest and most frequently used form of reinsurance. Its main advantages for the primary insurer are: First, he can fix a retention amount in each case according to the magnitude of the risk, and apart from sharing out the portion that exceeds his retention, he need not share out any part of whatever is within his retention and, therefore, will be able to gain a larger amount of good business and much income from insurance premiums. Second, he will be able to add a second and third to his first surplus reinsurance and have a certain flexibility in taking on larger items of business. As to the reinsurer, the main advantage of this form is that the contract will stipulate that the primary insurer must share out the excess over and above his retention, so that the reinsurer can count on a regular and stable source of business. The main shortcoming of this form is that it is still inappropriate to meet the needs for extra large insurance objects or losses due to extraordinarily large calamities, when it will become necessary to rely on other reinsurance methods to spread the risks.

B. Nonproportional Reinsurance

Nonproportional reinsurance, also called excess loss reinsurance, is a contract between the primary insurer and the reinsurer that stipulates an indemnity limit or limit of an indemnity proportion, and stipulates the responsibility of the reinsurer for the entire or the larger part of the liability

above an indemnity limit or indemnity proportion. The main characteristic of this form of reinsurance is that it is not the insurance amount but the amount of indemnity or proportion of indemnity that is to be the basis for the distribution of liabilities between the primary insurer and the reinsurer, and that, furthermore, there is no proportional relationship between the liability of the reinsurer and the computation of indemnity, on the one hand, and the insurance amount, on the other hand. With this method of reinsurance it is possible in cases of huge calamities or large losses to limit the indemnity amount for the primary insurer to within a fixed sum, or to restrict the proportion of indemnity payment not to exceed a risk line, thus to ensure stability for the insurer's financial affairs. Under nonproportional reinsurance, the primary insurer must pay a portion of his net premium income to the reinsurer. However, the rate is not the rate of the original insurance, but rather to be agreed upon by the two parties to the reinsurance contract. Nonproportional reinsurance can be mainly divided into the two types of excess of loss reinsurance and excess of loss ratio reinsurance:

1. Excess of Loss Reinsurance

Excess of loss reinsurance is the representative form of nonproportional reinsurances. Under this form of reinsurance, the distribution of liabilities between the primary insurer and the reinsurer is based on the amount of indemnity, and the two parties stipulate two indemnity limits in the reinsurance contract: one is the indemnity limit of the primary insurer in each insurance policy or for each claim, i.e. the underlying retention, and one is the maximum indemnity assumed by the reinsurer beyond the underlying retention of the primary insurer. Any indemnity within the limits of the underlying retention is the responsibility of the primary insurer; any indemnity beyond the underlying retention is a liability of the reinsurer within the scope of his maximum indemnity limit. If the total indemnity exceeds the underlying retention plus the maximum liability of the reinsurer, the excess is still a responsibility of the primary insurer. The following example will explain this: if the contract stipulates that the underlying retention of the primary insurer is $500,000, the maximum liability of the reinsurer is $1.2 million and the original insurance amounts and indemnity amounts are as in columns 1 and 2, the distribution of the liability of the two parties is as in the following table:

(In millions of U.S. $)

Examples	Original Insurance Amount (1)	Indemnity Amount (2)	Underl Ret of Primary Insurer (3)	Liability Assumed by Reinsurer (4)	Other (5)
A	.8	.48	.48	-	-
B	1.	.86	.5	.36	-
C	2.35	1.7	.5	1.2	-
D	2.6	2.25	.5	1.2	.55

Above table shows that the size of the original insurance amount (1) has no influence on the liability assumed by the reinsurer (4), but is linked to the indemnity amount (2). If the total indemnity (2) exceeds the underlying retention of the primary insurer (3), the excess is a responsibility of the reinsurer (4). However, if the total indemnity exceeds the underlying retention of the primary insurer plus the liability assumed by the reinsurer, that excess is still a responsibility of the primary insurer or to be taken care of by another form of insurance (5).

In the case of extra large business objects, the primary insurer can sometimes adopt the method of reinsuring in layers, where the liability for the indemnity is assumed by several reinsurers at different limited amounts. For instance, if the underlying retention of the primary insurer is fixed at $100,000, reinsurer A assumes $200,000 beyond these $100,000 and reinsurer B assumes $300,000 beyond these $200,000, then if a claim arises and the total indemnity is $580,000, the primary insurer is responsible for $100,000, reinsurer A is responsible for $200,000 and reinsurer B is responsible for $280,000. The premium rates for this kind of reinsurance are to be negotiated between the primary insurer and the reinsurer and are not restricted to the rate of the original insurance; the rate at each level is different and generally the rate is the lower the higher the level.

2. Excess of Loss Ratio Reinsurance

The difference of this type of reinsurance and the earlier described excess of loss reinsurance is: the indemnity limits of both sides are not fixed according to a certain indemnity amount but according to a certain indemnity ratio. This type of insurance should be called annual excess of loss ratio reinsurance, implying mainly that if the ratio of indemnity payments of a certain sector of the primary insurer exceeds a certain percentage of income from due insurance premiums within a stipulated annual period, the excess in indemnity is to be a responsibility of the reinsurer within a stipulated maximum amount and according to a stipulated maximum indemnity ratio. Sometimes the reinsurer also adds the limit of a maximum indemnity amount to his indemnity liability in addition to the limit of maximum indemnity ratio, so that even if the maximum indemnity ratio is not exceeded, he will still not be responsible for the excess if the claim exceeds the maximum indemnity payment amount that had assumed. To explain with an example: in case both sides have stipulated that the retention ratio of the primary insurer is 60 percent and the excess over 60 percent up to 125 percent is to be borne by the reinsurer but not exceeding the total indemnity amount of $1 million:

The annual excess of loss ratio reinsurance mainly allows the primary insurer to control his indemnity payments within a certain year and keep them within a certain bearable scope, so that this type of reinsurance is often added by the primary insurer after having taken quota share reinsurance, surplus reinsurance and excess of loss reinsurance. However, since this reinsurance computes indemnity according to annually accumulated indemnities, it does not directly relate to particular risks or singular claims as the other forms of reinsurance.

(in millions of U.S. $)

Cases	Total Premium Income (1)	Total Indemnity (2)	Indemnity Ratio (3)	Retention of Primary Insurer (4)	Liability of Reinsurer (5)	Others (6)
A	2.	1.2	60%	1.2	-	-
B	2.4	1.8	75%	1.44		
C	1.6	2.08	130%	.96	1. (note 1)	.12 (note 2)

Note 1: If there were only the limit of a maximum indemnity ratio and no limit to the amount of indemnity to be paid, the liability of the reinsurer would have to be $1.6 million times 65% = $1.04 million.

Note 2: This portion is still the responsibility of the primary insurer.

III. The Reinsurance Contract

As explained in the first chapter, reinsurance is an act of concluding a contract whereby the primary insurer transfers a portion or the whole of a risk that he has assumed to another insurer for that insurer to assume. In the reinsurance business, the rights and obligations in the relationship between the primary insurer and the reinsurer have, therefore, necessarily to be expressed in the reinsurance contract.

There are mainly the following types of reinsurance contracts:

A. The Facultative Treaty

The facultative treaty is the oldest form of reinsurance contract used in the international reinsurance market. It has mainly the following characteristics: the conditions and premium rates for each contract are provisionally agreed upon between primary insurer and reinsurer but prior to signing a reinsurance contract there is no obligation to actually sign an agreement binding on either side, so that each side has freedom of deciding on whether they will share out or accept a certain reinsurance business. Since the various concrete contract conditions under the provisional reinsurance treaty will be negotiated and determined by the two parties according to various circumstances, this method is very flexible and elastic, and is particularly suitable for reinsurance of business that arises temporarily, involving large insurance amounts and unique risks and of a nature which cannot be taken care of in the course of regular business. However, on the other hand, this method has the disadvantages of cumbersome procedures and limits in capacity because this type of insurance contract must be drawn up separately for each case.

The facultative treaty, like all common insurance contracts, must conform to the principle of insurable interest, that is, the primary insurer must have an insurable interest regarding the insured object, otherwise the insurance contract would be invalid. The insurer must also explain in detail to the reinsurer at the time of concluding the reinsurance contract the substance of the risk and all other relevant facts, to serve the reinsurer as references on which to base his decision as to whether to assume the reinsurance. For instance, in case of freight shipments by sea, the following items must be stated: name of vessel, sailing route, date of starting voyage, description of cargo, time limit of insurance, rate of premium, total insurance amount, reinsurance amount, etc.

In the facultative treaty, the reinsurer generally stipulates a maximum limit regarding the reinsurance amount for which he assumes insurance; some also stipulate that their reinsurance shall not exceed in amount whatever the primary insurer will be responsible for (i.e. his retention amount). In the case of very large insurance objects, it will, therefore, often be necessary for the primary insurer to conclude reinsurance contracts with several reinsurers at the same time as the only way to fully satisfy his need for spreading the risk.

The same procedure applies for the signing of a facultative treaty as for any other common insurance contract. The primary insurer must write out an application for the facultative reinsurance treaty, and the reinsurer must make out a reinsurance policy. Because the primary insurer has to spend much of his company's time and money during the procedure of contracting the direct insurance and setting up the contract with the reinsurer, the reinsurer has to pay the primary insurer a reinsurance fee.

B. Obligatory Reinsurance Treaty

The obligatory treaty is a long-term reinsurance contract, adopted to overcome the above-mentioned shortcomings of the facultative treaty and its need of signing separate contracts for each case (cumbersome procedure, limited capacity, etc). The special feature of the obligatory treaty manifests itself mainly in its obligatory nature for both parties of the contract. During the term of the contract, all business within the scope of the contract, regardless of the quality of the business involved or the amount of insurance involved, must be transferred by the primary insurer to the reinsurer according to the provisions of the contract, and the reinsurer must accept all business according to the provisions of the contract and must not reject any business for whatever pretense or reason.

The obligatory treaty is currently the most widely used reinsurance contract in the international reinsurance market. The proportional and nonproportional reinsurances, which had been introduced earlier, all employ this pattern. Its main advantages are that the primary insurer is ensured at all times of being able to transfer insurance liability, thus gaining a reliable guarantee for the conduct of his business. It also provides the reinsurer with fairly even reinsurance business in comparatively large quantities and with an even spread of risks.

Once a valid obligatory reinsurance treaty has been set up, it may continue indefinitely unless a certain contract termination procedure is taken. The duration of its validity is not linked to the time limits in the particular reinsurance business; even if all actual reinsurance business has come to an end, the treaty, theoretically, continues to be valid. If any one of the parties finds it necessary to terminate the treaty, it is generally necessary to give 3 months' notice in writing to the other party toward the end of any year to terminate the treaty on 31 December of that year. There are usually two ways of dealing with reinsurance business that has not yet come to the end of its term at the time the treaty is terminated:

1. Adopting the natural expiry system: the reinsurer will not return reinsurance premiums that he has received in full, but for business for which insurance responsibility has not yet expired, the reinsurer will remain responsible for the rest of the unexpired term until it naturally comes to an end.

2. Adopting the portfolio transfer system: at the time when the treaty is terminated at the end of the year, the reinsurer will return the reinsurance premium for unexpired liability to the primary insurer to have himself released of all unexpired liability. The primary insurer will then, after termination of the treaty, conclude a new contract with another reinsurer and transfer all unexpired liabilities to another reinsurer to assume responsibility.

C. Open Cover Reinsurance

Open cover reinsurance is a reinsurance contract falling between the facultative reinsurance treaty and the obligatory reinsurance treaty. The special feature of this contract is that it is not of an obligatory nature as far as the primary insurer is concerned, but of an obligatory nature as far as the reinsurer is concerned. That means the primary insurer may or may not share out business to the reinsurer although the business is of the type and within the scope designated in the contract. However, once the primary insurer does ask for reinsurance, the reinsurer has to accept the business and cannot refuse. Since this insurance contract allows the primary insurer freedom of choice, in the same way as in the facultative reinsurance treaty, but no freedom of choice for the reinsurer, as is also the case in the obligatory reinsurance contract, this type of reinsurance is also called facultative-obligatory reinsurance, where the term "facultative" refers to the freedom of reinsurance action for the primary insurer, and the term "obligatory" refers to the obligation of the reinsurer to accept the business.

The open cover reinsurance contract is a long-term contract like the obligatory reinsurance treaty; no termination date is stipulated beforehand. However, each of the contracting parties has the right to give notice to the other party to terminate the contract.

The open cover reinsurance contract is usually adopted to cope with the business of a certain geographical area, of a special risk or of an extra large accumulation of insurance objects, and is also often used as a supplement to

obligatory reinsurance treaties. Reinsurance is an organic part of the insurance business, and the major significance of launching international reinsurance business is being recognized by an ever-growing number of people in China. China's reinsurance business with foreign countries has greatly developed in recent years. China has currently established business relations on a broad scale with the insurance and reinsurance companies of many countries throughout the world. We have achieved certain successes not only in the reinsurance of our assets but also in the reinsurance that assures responsibility and trustworthiness. To better meet the needs of China in the development of its foreign economic relations and trade, to better serve China's policy of opening up to the outside world, China's insurance departments, based on the realities and special characteristics of the country, well-attuned to the changes and developments in the international market, and intent on improving business management in China's reinsurance affairs, are just now in the process of exerting great energy on the establishment of a more perfect management system.

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SPECIAL ECONOMIC ZONES

TECHNOLOGY TRANSFER TO SHENZHEN SEZ OVER PAST 4 YEARS

Shenzhen SHENZHEN TEQU KEJI [SCIENCE AND TECHNOLOGY OF SHENZHEN SEZ] in Chinese No 3, 1984 pp 47-48

[Article by Wen Chengen [3306 2110 1869] of the Shenzen S&I Information Office: "New Trend in Technology Transfer to Shenzhen SEZ"]

[Text] The Shenzhen SEZ is a window for the transfer of technology to our nation. At a time when the world is engulfed in the tide of a new technological revolution, it has become a major task of the SEZ to promote international economic relations and make use of foreign capital to import advanced technology, equipment and scientific methods of administration to achieve the main strategic objective of the four modernizations. With a view to attracting investments, the Shenzhen SEZ has done a gread deal of work in creating a favorable climate for investment by adopting a preferential policy, drawing up appropriate economic laws and regulations and establishing the necessary installations. The number of clients who come to invest has been growing year by year. The work of attracting investments has, generally speaking, undergone three different periods.

The first period is from the latter half of 1979 to the first half of 1980. Because the SEZ had barely been establishment and the investment climate was not all it should be, foreign businessmen tended to adopt a wait-and-see attitude, confining themselves to investing in projects that did not require large amounts of investment and that involved little risk while paying rapid returns, such as the importation of materials for processing, the assembly of parts imported from abroad, the ordering of goods from samples supplied, compensatory trade and planting and breeding. These projects were of the labor-intensive type that did not require skills of a highly technological nature. The average amount of investment in such projects was around HK$100,000.

The second period is from the latter half of 1980 to the end of 1982. With the development of construction in the SEZ and the tourist trade, the real estate business and the tourist trade underwent a period of rapid growth. During this period, investment agreements concluded by foreign businessmen reached HK $10.5 billion, including HK $7.5 billion in real estate and HK$1 billion in the tourist trade totaling 79 percent of the amount of the investment agreements. The import of such advanced technologies as high-rise designs, slip-form construction and the technique of piling served greatly

to promote the development of the building industry. A certain amount of advanced equipment was also imported for agricultural and industrial purposes.

The third period, which began in 1983, witnessed an increase in the ratio of investment in the industries due to the improved investment climate. During 1983, 878 agreements were signed with foreign businessmen for the investment of HK$2.63 billion, of which HK$1.13 billion was actually spent. There were 714 industrial projects constituting 81.32 percent of the total number of agreements and 39 percent of the total amount of investments. Some of the industrial projects of the technology intensive type imported advanced equipment and installations totaling HK$61.63 million. In the first half of 1984, 506 investment agreements were signed by foreign businessmen totaling HK$1.83 billion. Out of that number, 416 were for industrial projects, including a considerable number calling for relatively advanced technology and equipment.

From the establishment of Shenzhen as an SEZ to the end of 1983, 2,512 agreements were signed by the city with foreign businessmen for the investment of HK$14.1 billion, of which HK$2.9 billion has actually been used to import over 25,000 pieces (sets) of equipment, 30 percent of which was of the advanced domestic level. With the gradual improvement in the investment climate and the happy or unhappy experiences gained in the work of technology transfer during the first two periods, the import of technology by the Shenzhen SEZ took a turn for the better as from the latter part of 1983. First, there has been a sizable increase in the amount of investment according to the agreements, an increase in investment in multipurpose and diversified projects and an increase in the number of investment projects of the type associated with large modern industries. Second, there has been a notable increase in investments from the United States, Japan and Western Europe as well as from the more financially established financial groups and large enterprises which have brought in technology and equipment of a more advanced standard. Third, there has been an increase in the ration of industrial projects of an intensive type in point of technology and technical know-how, including certain projects of the advanced world level of the 1980's and certain technical projects of a practical nature.

The Shenzhen Plastic Flakes Factory, which went into production in July 1984, was jointly established by the Tenneco Corp of the United States and the Shenzhen Petrochemical Company. Its production equipment was imported from Japan, the United States and West Germany. Its entire 200-m production line is controlled by computers and manned by only 6 to 9 workers. Its products, which are of an international standard, have already been put in the world market. In March 1984, an agreement was signed between the Ross Chemical Corp of the United States and the Technology Research Institute of our Electronics Industry Ministry and the Shenzhen SEZ Development Co to engage in the joint operation of the Electroplating Surface Treatment Factory which produces additives--a vital raw material used by the electroplating industry. The technique of surface treatment of electroplating of the Ross Co is acknowledged to be of the highest level in the world. That is why its products constitute 70 percent of the total sold in the United States. The extensive application of this technology in our country will result in the conservation of valuable metals worth over 100 million yuan.

The Sanyo Electrical (Shekou) Co Ltd is the first solely financed enterprise established by Japan in an SEZ in China. Officially opened in October 1983, it produces radios, tape recorders, calculating machines and LED indicators. Because of the large number of orders from abroad, the factory has been repeatedly expanded. Within a period of only 9 months, the factory building area and the number of workers have been doubled. Plans are being made to set up a color television production line. Furthermore, Japan and Hong Kong have decided to establish jointly large-scale power plants and have indicated their interest in engaging in the joint production of high-quality electronic discs.

Businessmen from Western Europe have also begun to invest in technology-intensive industries in Shenzhen. Clients from Britain, France and Spain have already decided to engage in the joint production of refrigeration equipment and high-quality cement. In early 1984, agreement was reached by the Bao-lan-na [phonetic] Brewery Co Ltd of Munich in West Germany, "the beer kingdom," and Shenzhen to establish jointly the Bao-lan-na Brewery capable of producing 30,000 tons of beer a year. This is the largest investment project in the beverage industry in Shenzhen at the present time. Germany will supply advanced technology for brewing beer as well as the necessary machinery and equipment. The Shenzen Mineral Water Factory, jointly established by the Belgian Engineering Enterprises Co Ltd and Shenzhen, will also import the entire set of production equipment of the advanced world-class level.

Many financial groups in Hong Kong have continued to show active interest in making investments in Shenzhen. In July 1983, agreement was reached between the Hong Kong Guangda Industrial Co and the Shenzhen Light Industrial Trading Co to import from Austria the entire set of equipment and related technology to engage in the joint production of glass tubing, a high-quality building material in urgent demand in our country. This multilayered glass, produced by a special technique, is heat resistant and soundproof. It is a product that is both pleasing to the eye and energy-saving not previously produced in our country. The Xuri Printing Press, jointly established by the Shenzhen Petrochemical Co and the Hong Kong Xuri Keshi Printing Co Ltd has imported flat four-color folio templates, two-color reversible printing presses and automated transfer machines for the binding of hardcover books from West Germany and electronic color scanners from Britain that are of the advanced level of the early 1980's.

Among the advanced equipment imported from abroad may also be mentioned production lines for printed circuit plates, production lines for integrated circuit assembly, production lines for the assembly from beginning to end of crystal display plates, Intel (?) electronic computers from the United States, equipment for the remote control of unmanned flights, entire sets of electronic computers for the automatic testing of automobiles, automatic production lines for weaving plastic bags and the technique for the production of tape recorder cores. A series of technology intensive projects such as laser tapes, fiber optics, minicars, small aircraft, neon signs and oil refineries are under negotiation. Agreements for a number of large projects involving investments of over 10 million yuan, such as an American-invested titanium dioxide factory and a frosted glass factory, will soon be signed.

The above projects are indicative of the fact that the technology and equipment recently brought into the SEZ are of the advanced level of the 1970's and 1980's. In our negotiations with investors, importance is attached not only to the import of entire sets of equipment but also that of the key technology and equipment that would fit in with our own as well as exclusive techniques and technical know-how. With the further relaxation of policy, the heightened level of our understanding and the rapid strengthening of the industrial foundation of the SEZ, such phenomena which used to characterize the work of technology transfer in the early period as waiting for foreign businessmen to know on our door and importing without discrimination anything and everything that is offered, including obsolete equipment, are things of the past. The tendency of the "three mores and three lesses" (more labor-intensive types and less technology-intensive types, more import of equipment and less import of technology, more equipment of an ordinary nature and less equipment of an advanced standard) has been reversed. It is the overall plan for the development of the SEZ to import advanced technology and equipment to satisfy our needs. The work of technology transfer has thus assumed a new look.

To encourage the import of advanced technology that can be put to practical use, the Guangdong People's Government promulgated in February 1984 the "Provisional Stipulations for the Import of Technology to the Shenzhen SEZ" which stipulates that "the technology imported is to be of the advanced world level or which is of major economic benefit, that the concerned parties on both sides are to present certificates issued by the Shenzhen S&T Development Center and the concerned scientific research department of the state in applying to the Shenzhen tax department and the land administration department for preferential treatment offered by the SEZ for the payment of taxes and land usage." The announcement has been made by Mayor Liang Xiang [2733 3276] that the tax exemption period is to be extended for technologically advanced projects, that land use fees will be further lowered, that the ratio for the sale of products in the domestic market will be further increased, that the responsible persons in the municipal government are to participate in the negotiations in major investment projects so that agreements may be signed and production started without delay and that in the latter part of 1984, the Shenzhen SEZ is to attach importance to industrial projects of the technology-intensive type involving advanced know-how and to the utilization of foreign capital.

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SPECIAL ECONOMIC ZONES

ANALYSIS OF SHENZHEN SEZ AS COMMODITY DISTRIBUTION CENTER

Shenzhen SHENZHEN TEQU KEJI [SCIENCE AND TECHNOLOGY OF SHENZEN SPECIAL ECONOMIC ZONE] in Chinese No 3, 1984 pp 13-15

[Article by Tang Huozhao [0781 3499 3564] of the Shenzhen Economic Institute: "Analysis of and Recommendations for Shenzhen Special Economic Zone [S&Z] as Transportation and Distribution Center"]

[Text] Problems Which Have Been Raised

With the emergence and development of the new technological revolution, the world economic pattern is undergoing a period of vast changes. Before the advent of the 21st century, the Asian and Pacific area will have replaced the Atlantic area as the hub of global economic activities. That is the forecast made by economic theorists and public opinion. Since the 1980's, the volume of international trade of the countries spanning the Pacific Ocean has surpassed that of the countries in the Atlantic. The world has witnessed for the first time in history a reversal of the volume of trade between the eastern and western hemispheres. As has been pointed out by the FRANKFURTER ZEITUNG of the FRG, the economic growth in the Pacific area in the next 20 or 30 years will have surpassed that in the world both in terms of the gross production value in society and the average personal income and the Asian and Pacific area will have an increasing impact on the world economy.

Situated as it is in the hinterland of the Asian and Pacific area, the Shenzhen SEZ is a highly accessible and newly developed city that serves as a bridge for the strengthening of our economic and technical relations with the outside world. It will, mainly by virtue of its function as a service and exchange center (including in a wider sense the import of technology and equipment), exert a major impact on the enhancement of our position in the world economy.

Is the Shenzhen SEZ in a position to assume this pivotal role and become one of the major hubs for economic and technological exchange between our nation and the nations of the world? Is it capable of becoming a newly developed and advanced industrial base of the type characterized by the intensive use of technical know-how, technology and capital in the Asian and Pacific area? Does it have what it takes to become one of the major

ports and shopping centers for foreign trade? The crux of the matter lies in whether the Shenzhen SEZ has a sufficiently powerful capacity for absorption and "feedback." The capacity for communication and transportation is a major factor that determines the capacity for absorption and feedback. A modern economic center can only be established and developed when it has a high capacity for transportation and a sound transportation structure. It is only when it is well situated geographically, when favorable policies are adopted and when it has a three dimensional and crisscrossing communication and transportation network that extends in all directions that we can absorb and assemble the human and material resources at home and abroad to promote our economic development and make use of our modernized communication network and our capacity for absorption to redirect our human and material resources to the nation and the outside world. The strategic importance of communication and transportation can easily be seen in the development of the Shenzhen SEZ.

A start has been made to develop communication and transportation in the SEZ in recent years. Plans are also being made to build and to repair the Guangzhou-Shenzhen Expressway, the Chiwan, Mawan, Yantian and Dayawan harbors, to extend the construction of wharves at Shenzhen and at the coastal port of Shekou. These far-sighted strategic policies will greatly contribute to the economic development of the SEZ. The problem is how to enlarge the assembly and distribution capacity for exports and imports by sea and by land. If the capacity for assembly and distribution by land lags behind that of the harbors (according to the plan, the handling capacity of the wharves at the five ports is to exceed 50 million tons annually), the transportation capacity by sea is bound to be adversely affected. The Huangpu harbor near Guangzhou offers a perfect illustration. Due to its inadequate distribution and transportation capacity, this harbor, which ranks fourth in the nation in terms of its handling capacity, is faced with such problems as the inordinate length of time that foreign shipping is tied up at the harbor and the necessity of storing annually 400,000 to 500,000 tons of goods, which should not be exposed to the weather, in the open. This is a lesson which the Shenzhen SEZ must take to heart.

The Shenzhen SEZ has Guangdong Province at its back. Thus, it has to rely on the communication and transportation facilities of the province to assemble and distribute large volumes of export and import products. Unfortunately, communication and transportation facilities are not well developed in Guangdong Province. At present, the ratio of transportation volume is broken down into 43 percent by inland rivers, 40 percent by highways and 17 percent by railway. The technical standard of the highways leaves a great deal to be desired. In 1978, only 8.8 percent of the highways were open to traffic, a rate that is lower than the 14.7 percent for the entire nation. The mileage of railways open to traffic is likewise inadequate. In 1978, the mileage of railways open to traffic comes to only 1.77 percent of that of the nation. In Pingshi, one of the eight restricted cities in the nation, one-third of the goods cannot be unloaded in any given year. Even with the resumption of traffic in the southern section of the Nanjing-Guangzhou Railway, its transportation capacity can be increased by

only 4 million tons. Insofar as the transportation capacity for the assembly and distribution of goods by land is concerned, Shenzhen is faced with difficulties of considerable proportions.

What Is Needed and What Is Possible

The matter of communication and transportation plays a pivotal role in the development of the economy. It determines "the flows of goods" and the volume of the economic feedback of the Shenzhen SEZ. It has a direct effect on the size of the role which can be assumed by an economic center and on its economic development. How should the Shenzhen SEZ develop its assembly and distribution capacity?

First, it is essential to increase its assembly and distribution capacity within the city area, to conserve energy consumption, to increase its efficiency and to establish a modernized transportation pipeline in the city. The assembly and distribution points in the SEZ for sea transportation are at present in the east and the west. Highway transportation has already reached its saturation point. According to statistics, there are now 10,000 motor vehicles of various types in the city. Added to that are the licensed motor vehicles in Shenzhen and Huangpu (in 1983, the import and export transportation volume of Wenjindu alone came to 1.56 million tons and 260,000 trips and a vast number of motor vehicles from the inland area. Over 70 percent of the motor vehicles are concentrated on 164 km of highways within the 240,000 sq km city area and in the 250 km of highways from the south of Shenzhen to Shekou and from Luohu to Shatoujiao. Thus, the congestion and slow rate of traffic flow would not be difficult to imagine. With the development of the economy, the transportation situation in the city is likely to become even more acute.

One solution is to develop pipeline transportation which can handle large volumes of goods, which is capable of being used on an even and continuous basis, which is easy to manage and relatively free from restrictions imposed by natural conditions. Pipeline transportation is the cheapest way to handle large amounts of commodities such as gas and petroleum. Pipelines are used in foreign countries even for the transportation of solid materials, such as coal, mineral ores, building materials and garbage. When used for the transportation of coal, mineral ores and large volumes of solid commodities, capital investment in pipeline transportation is 50 to 60 percent lower than that for railways, the consumption of steel is 30 percent less and the transportation cost is lower. If a pipeline with a diameter of 500 mm and the speed of 1.6 m/sec is used exclusively for the transportation of goods from the freight depot in the north of Shenzhen and the industrial areas of the city to the wharves, it would be possible to transport 5 million tons of goods annually and to reduce the daily flow of 8-ton motor vehicles within the city by 1,600 trips. The construction of a pipeline used exclusively for the transportation of crude oil from the wharf area to the refineries and power plants will further reduce motor traffic on the highways.

Second, to increase the speed for the assembly and distribution of commodities between the Shenzhen SEZ and the hinterland and the process of assembly and feedback in the SEZ, we should, while speeding up the repair and construction of the Guangzhou-Shenzhen Expressway, also make plans to extend the first expressway in the nation section by section or to link it up section by section with Yueyang in Hunan Province by the end of the century. Expressways are a major hallmark of modernized communication. Because they are fast and can be used continuously, they are economical, safe, speedy and capable of carrying large volumes of commodities. Expressways in the United States, while comprising only 1.05 percent of the total highway mileage, nevertheless carry 20 to 25 percent of the transportation volume handled by all the highways.

The extension of the Guangzhou-Shenzhen Expressway to Yueyang would, first of all, establish a link between the Shenzhen SEZ and north China and, by using inland river transportation along the Changjiang, link up east China, the northwest and the southwest to enlarge and widen the assembly and feedback capacity of Shenzhen. The extension of the expressway would make Shenzhen accessible from every direction and add to its economic clout.

Second, the extension of the expressway would serve to reduce the pressure on the Nanjing-Guangzhou Railway. The volume of traffic on the railway has already exceeded its capacity by 35 percent, not to mention the volume of freight. The extension of the expressway would not only ease the pressure on the railway but also invigorate the economy of the vast hinterland and speed up the economic development of South China and its bases for the production of export commodities.

Furthermore, the extension of the expressway would speed up direct and uninterrupted traffic from one point to another. An express train takes over 14 hours to travel from Yueyang to Guangzhou and another 2 hours from Guangzhou to Shenzhen for a total of 16 hours whereas the 1,000-km trip on the Shenzhen-Yueyang Expressway takes only 12 hours. The expressway is not only economical and effective but also capable of transporting large volumes of the latest products from Hunan Province to their destination for export overseas. The extension of the Guangzhou-Shenzhen Expressway would contribute to the economic development of the Shenzhen SEZ as well as to the economic prosperity of the provinces of Guangdong and Hunan.

In view of the high construction cost of extending the expressway to Yueyang and the necessity of having to cut through and to go over mountains, the project is not one that can readily be accomplished. However, the amount of investment can easily be recouped by reducing the cost of motor transportation, the time spent on the road and the number of accidents. The amount of investment in the continental and national defense expressway network in the United States totaling 6,842 km came to $90 billion. However, by increasing the speed of traffic and reducing the time involved, it is possible to save $1 billion for heavy vans alone and to recoup the entire amount of investment in 8 to 10 years.

Third, to increase the speed of assembly and distribution between the SEZ and the economic centers of the various countries and to promote closer international contacts, it is essential to speed up the construction of international airports and to develop air transportation. Although high in cost and energy consumption, air transportation does not call for a great deal of investment. The amount of investment in the construction of a modern airport is equivalent to only the average amount for the construction of a 70-km railway. With the development of economic activities in the SEZ, the increasing frequency of its international contacts and its growing tourist trade, air transportation will assume even greater importance. According to a forecast made by the International Air Traffic Association, the annual rate of increase in passenger traffic on international routes in the Asian and Pacific area between 1983 and 1988 is expected to be around 6 to 8 percent, a rate that is higher than the average of 4.4 percent worldwide, and the average annual rate of increase in air traffic in China itself is projected at 20 percent. By the end of the century, the volume of air traffic in the Asian and Pacific area is expected to be 3- to 4-fold times what it is today.

Way to Increase Speed

The speed of assembly and distribution in communication and transportation is not only restricted by the necessity of using railway, highway and water transportation over long and middle distances but also by the degree of efficiency of transportation centers, transhipment and loading and unloading facilities. Thus, while an effort is made to improve transportation conditions for assembly and distribution, it is also necessary to develop modern methods of control over the means of transportation.

First, it is necessary to develop large-scale, multipurpose and speedy container transportation, the advantages of which are many. Since the 1970's, container transportation has been rapidly developed throughout the world. Its annual rate of increase between 1975 and 1980 came to 36 percent. In 1981, the handling capacity of container transportation throughout the world reached 40.11 million standard cases. At present, throughout the world there are 20 container shipping companies with over 700 ships totalling 14 million tons which are fully containerized and capable of being converted to carry 150 standard cases and over 950 semicontainerized ships totaling 11.5 million tons. The development of containerized transportation is and will be what is required for the development of modern international transportation.

Second, it is necessary to establish a coordinated land/sea and "door to door" transportation system. The coordinated land and sea transportation system calls for the use of railways and highways to serve as "bridges" to link up water areas and communication networks between two separate points. The extension of containerized transportation inland and to the ports across land areas reduces the number of transfers, the need for repackaging and the process of loading and unloading. By making use of the Nanjing-Guangzhou Railway and the Guangzhou-Shenzhen Expressway and by opening up the Shenzhen-Yueyan Expressway as a land bridge between the middle reaches of the

Chang Jiang and Nanhai, it will be possible to add to the potential of railways and expressways. It is estimated that by 1995, traffic on the Guangzhou-Shenzhen Expressway will reach 25,000 car/days and that, taking the volume of heavy 10-ton containerized trucks as 10,000 trips, the annual assembly and distribution capacity of the expressway will be in excess of 30 million tons. It can, therefore, be seen that the construction and repair of the expressway will greatly increase the assembly and feedback capacity of the Shenzhen SEZ and that it is by developing the sea and land through transportation system that the capacity for assembly and feedback of the SEZ can achieve its full potential.

Third, it is necessary to construct wharves for containerized transportation, to exercise control over communication centers and to modernize loading and unloading facilities. Container wharves are vital for land and sea through transportation. Besides the wharves used exclusively for the sea transportation of petroleum, coal and mineral ores, most of the other wharves should be used for the development of container shipping of sundry commodities. There are in the world some 300 harbors with some 900 wharves for container shipping while container shipping of dry goods constitutes some 80 percent of the volume of goods shipped by containers. Since the export commodities from central and south China
and food, container shipping should be used mainly for the transportation of dry and refrigerated goods.

In Europe and the United States, the newly built cranes at the berths of container wharves have the capacity of extending outward from the original 33 to 36 m, rising upward from 22 to 25 m, increasing the speed of ascent from 36 to 56 m/min and increasing the speed of lateral movement from 125 to 150 m/min. The largest of the cranes are capable of lifting weights from 45 to 90 tons. We must modernize our loading and unloading facilities and make an effort to increase the mechanization of loading and unloading so as to increase efficiency and speed up the turnover of shipping. We must at the same time exercise better control over the assembly, distribution and coordination of inland highway and railway transportation and make use of computers to control and reduce the number of errors in conformance with the way modernized communication and transportation is being developed in other countries.

The Shenzhen SEZ has favorable conditions for the construction of wharves for sea transportation. The wharves at Mawan, for instance, are built on water 12 m in depth and capable of berthing 50,000-ton vessels. The port is situated close to the Zhujiang channel and is protected by Danganshan in front and Lingding Island in the southeast so that the water is calm inside the harbor. Through the mouth of the Zhujiang, the river route extends to the Dong Jiang, the Xi Jiang and the Bei Jiang. On land, Mawan is only 11 km from the Guangzhou-Shenzhen Expressway. By adjusting and coordinating its assembly and distribution capacity and by adopting modern methods of loading and unloading, we can without any doubt make Mawan one of the communication hubs and a major port not only in our nation but even in the Asian and Pacific area.

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SPECIAL ECONOMIC ZONES

SHANTOU'S ELECTRONICS INDUSTRY DEVELOPS RAPIDLY

Guangzhou NANFANG RIBAO in Chinese 4 Feb 85 p 1

/Article by Zhang Mingda /1728 7686 6671/, Gao Liwei /7559 4539 0251/ and Chen Zeming /7115 3419 2494/: "Shantou's Electronics Industry Begins To Take Off--With Imported Wings and Energy Produced by Domestic Integration"/

/Text/ The general office of the Shantou City Electronics Industry Company has accelerated the development of production by vigorously engaging in imports and domestic integration. Last year its total output value was 1.22-fold higher than in 1983. All plants of the industry made profits, ushering in a new situation of doublint output value, sales and tax payments and profit delivery all at the same time.

In the past few years, enterprises under the jurisdiction of this company imported 12 production lines on different occasions. After the six key enterprises of the Shantou City Semiconductor Device Plant, the Chaoyang Semiconductor Device Plant, the Denghai Semiconductor Device Plant, the Chaozhou Radio Plant, the Chaozhou Radio porcelain plant, and the Jieyang No 12 Component Plant imported 8 production lines, their total output value last year exceeded 60 million yuan, accounting for 64 percent of the total output value of the whole industry and a 1.38-fold increase over 1983. They made a profit of 10.85 million yuan, a 1-fold increase over 1983. Last year the work of domestic integration also made fairly big progress. Thirteen enterprises of this industry have integrated with affiliated enterprises, enterprises inside and outside Guangdong Province and scientific research units of universities and colleges to establish such economic associations as the Huashan Electronics Device Company, the Huagunag Electronics Machinery Integrated Company and the Shanbao (Shenzhen and Baoan) Electronics Company, which have injected new energy into these enterprises. In addition, they also conducted a series of reforms in all enterprises, enabling a number of backward plants to remove their label as money losers last year. The Shantou City No 4 Radio Plant, which had deficits in 5 consecutive years, elected its plant manager through democratic elections last year. Organized by the manager, the plant implemented the economic contract responsibility system and aroused the enthusiasm of staff members and workers for production. As a result, last year the industrial output value of this plant increased one-fold over 1983, turning deficits into profits.

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LABOR AND WAGES

NEW CONCEPTS FOR SELECTION OF MODEL WORKERS

Beijing LIAOWANG [OUTLOOK WEEKLY] in Chinese No 5, 4 Feb 85 p 4

[Article by Huang Zhimin [7806 0037 2404] and Tong Zhengli [1749 2414 3810]: "New Concepts Established for the Selection of Model Workers"]

[Text] Jin Jian [6855 7003], deputy secretary of the Beijing Municipal Party Committee, recently pointed out at the First Conference for Selecting Model Workers that we must break through old concepts in our future selection of model workers and establish new concepts. We must continue to stress the roles of model workers as leaders, backbones and bridges, but in this new era of the four modernizations and in this new period of reform, the substance and requirements of these three major reforms must have a few new characteristics and must establish 10 new concepts.

1. We must change the old concept of only emphasizing physical labor and establish a new concept of emphasizing mental labor.

2. We must change the old concept of only paying attention to the broad masses of workers at the "implementation level" and must establish a new concept of paying attention to organizers, managers, leaders and others who are at the "policy making level."

3. We must change from a spirit of only "serving the people wholeheartedly" and establish a new concept of both "serving the people wholeheartedly" and "accomplishing a great deal."

4. We must correct the old concept that to be advanced we must abandon all personal benefits and not consider any compensation, and we should establish the new concept of striving to be a model worker that is industrious and well-off.

5. We must establish a new concept of embodying those who are on the forefront of the construction of material and spiritual civilization.

6. In choosing model workers, we must break through the old concept of "once someone is chosen he never falls into disfavor" and establish a new system where there is no "lifetime system."

7. We must correctly regard and appraise model workers and correctly handle the relationship between model workers and the masses.

8. We must maintain the mass line and change past practices of "leaders choosing higher model workers, a very small number of people making the selections, and the pen doing the writing (?) [bigan zixie 4581 8530 1311 1400]."

9. We must select a broader range of people and should not select too narrow a circle of people. We must embody the current policies of the party and the state, and selections should be made from state, collective and individual units and not from party members alone; people outside of the party who have also made great contributions should be selected.

10. We should not take advanced workers completely to task.

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LABOR AND WAGES

OBSTACLES TO EXCHANGE OF TALENT DECRIED

Beijing BANYUE TAN [SEMI-MONTHLY TALKS] in Chinese No 23, 10 Dec 84 pp 10-11

[Article by Ding Shiyi [0002 0013 5030]: "Break Through the Obstacles Standing in the Way of Reasonable Talent Exchange"]

[Text] Talent exchange is currently a pressing problem that urgently needs to be solved for the four modernizations. In order to promote talent exchange, the Ministry of Labor and Personnel has established national talent exchange in every province, municipality and autonomous region, forming a national cooperative network for talent exchange. These organizations have vigorously reformed, dared to probe and have begun to open wide the door to rational exchange of talent.

China currently has more than 11 million specialized personnel involved in every possible field, of which 1.4 million are high-level and middle-level technical personnel. In light of the requirements of the four modernizations, this number is clearly insufficient for China's needs. Yet if they are rationally distributed and their enthusiasm is given full play, these people will make an even greater contribution to the four modernizations. Comrade Deng Xiaoping in discussing the management and use of scientific and technical personnel stated: the problem is not that we have no talented personnel but that we are unable to competently organize and utilize our talented personnel, arouse their enthusiasm and give play to their special skills. Currently, on one hand, we are lacking scientific and technical personnel and, on the other hand, we are creating great waste by holding up work due to poor organization. The phenomenon of not being able to use knowledge and not using the strong points of this knowledge is very serious at the present time. According to statistics, since July of this year, more than 1,200 specialized personnel from all fields came to the national talent exchange consulting service centers and asked to be transferred, and 85 percent of them were people who were employed in a field that is not the one in which they were trained, their strong points were not being utilized and their units were overstaffed because they were not using people appropriately. Another 180 units have asked that more than 3,000 specialized personnel in many fields be transferred. Even if national talent exchange service centers work extremely hard, the results will not be outstanding. Only 10 percent of the

personnel who have asked to be transferred have been transferred and agreed to the transfer. A few "local policies" made up by a few localities and units have placed major obstacles in the way of talent exchange. Thus, in order to solve the problem of talented personnel, besides accelerating the development of educational institutions, we must also break through the large barriers in our present personnel management system--the system of departments and units with talented personnel.

A few units and departments are constantly giving numerous imposing arguments for restricting the exchange of talent. For example, personnel being transferred must also exchange housing, otherwise, even if there is no work, the units need to "keep the housing in storage to prepare against an urgent need." The argument put forth by these units is that housing is scarce, and that if people who are being transferred do not relinquish their housing they will be obstructing the masses. Their own workers who are living in the housing of other units should make them feel at ease and justified. After some specialized personnel graduate from specialized institutes run by their own units and the distribution is not geared to the needs of the job, they ask to be transferred to a job that is suited to their special training. The responsible people from these original units then ask the units who are receiving the talented personnel to pay "tuition" or a "fee for the loss of talented personnel," otherwise they will not allow the transfer. There are also a few units that stipulate that "no college graduate will be permitted to leave," the reasoning being that they do not want to "maintain an army for 1,000 days to use it for an hour."

How can we break down the obstacles of the rational exchange of talent? Currently, since there is no legislation, the personnel departments of a few localities have engaged in arbitration in talent exchange service centers and have requested that those people who truly have special skills be placed in jobs suited to their special training. If the unit will not release the worker, then the other unit can hold discussions. If nothing can be resolved in the discussions, the worker can submit his resignation and can be recommended to a unit by the talent exchange service center. His original wages and treatment will remain the same and his seniority will still be considered. This is a good method that is worth promoting.

There are also a few enterprise units which, when they need talented personnel, invite applications and engage a worker at better pay and conditions than the original unit, sign a contract and when the contract expires can continue to employ the worker, dismiss them or the worker can resign. After this method is carried out, it will have a good effect on adjusting the surplus and defieicny of talented personnel.

Talent is the wealth of the nation and society and is not the possession of any one unit. Thus, in order to break through the obstacles of the reasonable exchange of talent, we must do some ideological work, especially toward those people who coerce workers using tuition and housing as an excuse. They must proceed from the overall situation of the talent that is urgently needed for the four modernizations, consider the overall benefits of the country as primary, establish a concept of the entire situation and overcome selfish

departmentalism. The problem of housing is obviously easy to solve. Because there is a transfer of talent in every unit, the situation of intersecting housing is common and is also allowed under state policy.

When we say that we are reforming the personnel management system, we do not mean that we are completely abandoning the measure of planned management in personnel management. In order to ensure the completion of economic plans and in order to strengthen key construction, etc, the state must mainly rely on planned deployment to solve the problem of talent. In the past, because of the obstacles of units and departments, we were often unable to allocate and assign. Therefore, breaking through the systems of the units and departments of talented personnel also includes strengthening the state's authority to allocate.

The implementation of talent exchange is a reform of the personnel system. If people are able to cultivate a concept of the overall situation and look upon the four modernizations as primary, then the gates of the rational exchange of talent can be opened wide.

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LABOR AND WAGES

AWARDS FOR MODEL WORKERS DISCUSSED

RIBAO Commentary

Beijing GONGREN RIBAO in Chinese 28 Feb 85 p 1

[Article by Staff Commentator: "Whoever Makes Great Contributions Receives Honor and Awards"]

[Text] The All-China Federation of Trade Unions has decided to award "May 1 Work Medals" and "May 1 Work Certificates of Decoration" for those advanced individuals and collectives that have made outstanding contributions to the four modernizations, and has also bestowed the respective titles on these workers. This is a first in the history of China's workers movement and is also the highest honor and award given to advanced model workers by the trade union of the working class. Since the Third Plenum of the 11th CPC Central Committee, China has entered a great new era of rising up; the masses are resplendent and the heroes are shining forth. Those advanced model workers who use their own talent, wisdom and painstaking effort for the prosperity and strength of their mother country and the well-being of the people and who make outstanding contributions for creating material and spiritual wealth are glorious champions who are advancing on the forefront of a modern era, and they should naturally receive the esteem of all of society and earn lofty honors and awards. The awarding of the "May 1 Work Medal" and the "May 1 Work Certificate of Decoration" will more broadly and more thoroughly promote the development of the mass campaign to study and catch up with the advanced. It will encourage and impel hundreds of millions of workers to carry forward the spirit of being masters of their own destiny, will rouse them to exert themselves and forge ahead, will give full play to their abilities in the construction of socialist material and spiritual civilization and in the restructuring of the economic system, and it will encourage workers to continually make new contributions.

The scope of this decision and these awards is extremely broad. It includes the advanced individuals and collectives from industry, transportation, capital construction, agriculture, forestry, water conservation, finance, trade, banking, culture, education, news,

publishing, health, scientific research, sports, public security, organizations, groups and every type of industry and includes every type of advanced worker engaged in physical and mental labor. With regard to the outstanding contributions that they have made, they be given both their deserved material work compensation and significant rewards. Material rewards, however, are unable to replace spiritual rewards. The honor bestowed on advanced model workers explains that their work is both recognized and respected by society. These awards not only must encourage the advanced workers themselves but must also establish a banner for society and compel more and more people to keep pace wave by wave. A fine example has boundless power. The advanced ideology and model behavior of advanced model workers is a driving force that promotes the continuous development of the undertaking of our socialist modernization and construction.

In a different historical period and under different conditions, the connotations for the standards of advanced model workers are different. Who should we encourage in this new period of historical development? There are a total of six points in this decision. Although these six points are different in scope, yet with regard to their inner links, one common requirement is that whoever makes a great contribution to the four modernizations, whoever has outstanding achievements in building socialist material and spiritual civilization and whoever is bold to open up and bring forth new ideas should receive honor and awards and should be respected by all of society.

In order to uphold this requirement, we must eliminate the influence of "leftist" thinking and do away with the fetters of traditional viewpoints and old conventions. In the process of reform, capable people must continuously come to the forefront group after group. These people are learned, inventive, creative and they make contributions, yet they may also be deficient in some way: we cannot nitpick and demand perfection, and we must oppose the irregular phenomena of isolating and attacking those who are advanced. We must establish the common practice in our society of studying those who are advanced and showing concern for and taking good care of model workers.

We must seek the truth from facts in upholding this requirement. In rewarding advanced workers, we are only rewarding them with regard to their contributions to the four modernizations. We want to do an appropriate job and do not want to embellish the situation in commending their good ideology and spreading their advanced experience. In the same vein, in looking at advanced workers, we must first consider their contributions, and we are not being realistic if we do not also see their faults and weaknesses.

The honors should not be a "lifetime system." Our undertaking changes with each passing day. As in the Chang Jiang, the waves behind drive on those before, so things are continuously moving forward. There is not one advanced standard in the world that is not changing, and today's

honors only refer to past contributions. With the development of the four modernizations and with the passage of time, today's advanced workers can be replaced by tomorrow's advanced workers. As long as people with a spirit of devotion are constantly striving to become stronger, are advancing on the forefront of a new era and are continually discovering, inventing, creating and striding forward, they will always keep their spirit young and will continually earn honor.

Awarding "May 1 Work Medals" and "May 1 Work Certificates of Decoration" is an important matter in social work. Trade unions at all levels must maintain the mass line according to the requirements of the decision, do a good job at making appraisals through discussion and at submitting reports and ensure that honors and awards go to those individuals and collectives that have made great contributions to the four modernizations. We must encourage and help advanced model workers to study assiduously, be closely linked with the masses, be modest and prudent, continually blaze new trails and continually move forward.

Medals Awarded

Beijing GONGREN RIBAO in Chinese 28 Feb 85 p 1

[Article: "All-China Federation of Trade Unions Decides to Award May 1 Workers Medals and Certificates of Decoration; Advanced Citizens and Collectives That Have Made Outstanding Contributions to the Four Modernizations Awarded"]

[Text] On February 25, the All-China Federation of Trade Unions announced its decision about awarding "May 1 Work Medals" and "May 1 Work Certificates of Decoration" and asked that the trade unions of all provinces and autonomous regions abide by the regulations. The entire text of the decision is as follows:

Based on the spirit of the constitution of the PRC of "the state advocating socialist work competition and encouraging model workers and advanced producers," in order to promptly encourage advanced individuals and collectives who have made outstanding contributions for the four modernizations, arouse the enthusiasm, creativity and initiative of workers, promote reform and technological advances and spur on the development of socialist modernization and construction, we have specially made the following decision:

First, any worker or collective engaged in industrial transporation, capital construction, agriculture, forestry, water conservancy, finance, trade, banking, culture, education, news, publishing, health, scientific research, sports, public security, groups, organizations and other industries who has made an outstanding contribution to the four modernizations is evaluted and reported to higher authorities by the provincial, autonomous

region and municipal trade unions and national industrial trade union. The individual and collective is then examined, verified and approved by the All-China Federation of Trade Unions, and a "May 1 Work Medal" ia awarded to individuals along with the corresponding honorific title, and the collective is awarded the "May 1 Work Certificate of Decoration" along with the honorific title of national advanced collective.

Second, those who possess the following conditions will be awarded the "May 1 Work Medal" and will receive the corresponding honorific title:

1. those who have new ideas in the restructuring of the economic system and in other reforms, who put them into effect and who achieve outstanding results;

2. those who have achieved outstanding results, are innovative and have attained an outstanding national or international level in the undertaking of socialist modernization and construction in every post;

3. those who have achieved outstanding results in scientific research, in discoveries and creations, in technological innovations, in a rationalization proposal or in using and promoting new technology, new equipment and new materials;

4. those individuals who have won the very highest place in a competition between industries or who have set a national record;

5. those who have outstanding achievements in the construction of socialist spiritual civilization and have made a significant contribution to the four modernizations;

6. those who have made outstanding contributions in preventing a major accident, resisting unhealthy tendencies, saving and protecting state and collective property, struggling against evil people and evil deeds and upholding social order.

Third, enterprises, organizations, groups and other subordinate units and teams in all industries that have done a remarkable job in completing their tasks, created outstanding results and that have achieved or created an advanced national level industrywide will be given the honorific title of national advanced collectives and will be awarded the "May 1 Work Certificate of Decoration."

Fourth, trade union cadres and trade union activists who have made outstanding contributions to the four modernizations and to the construction of trade unions will be awarded the "May 1 Work Medals;" advanced trade union organizations will be awarded "May 1 Work Certificates of Decoration," and will be given their respective honorific titles.

Fifth, in principle, "May 1 Work Medals, "May 1 Certificates of Decoration" and the corresponding honorific titles are awarded once a year on International Labor Day, and those people with particularly outstanding achievements can receive these rewards at any time.

Sixth, the corresponding honorific titles of advanced individuals are titles that are determined based on the special achievements of each person: for example, national technical innovation expert, national technical (business) expert, national outstanding manager and administrator, one who assiduously carries out reforms, national outstanding teacher, etc. The corresponding honorific titles are proposed by the nominating unit and examined and approved by the All-China Federation of Trade Unions.

Seventh, when the nominating units are appraising advanced workers and collectives, they must maintain the mass line. After the units make a decision, they must make sure that the facts are accurate, the circumstances are realistic and reliable and that they make an apt appraisal. If it is discovered after a title has been conferred that the major achievements are inconsistent with the facts, a report must be submitted level by level for these model workers, and these individuals should be administratively expelled, their employment should be looked at very carefully, to the point that they are subject to criminal sanctions. After the discovery is upheld by the All-China Federation of Trade Unions, the honorific title must be rescinded and the medal, certificate of decoration and citation should be taken away.

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TRANSPORTATION

SHANGHAI HARBOR'S CONDITIONS, FUTURE DEVELOPMENT DISCUSSED

Shanghai SHIJIE JINGJI WENHUI [WORLD ECONOMIC FORUM] in Chinese No 4, 20 Nov 84 pp 66-68

[Article by Lu Bohui [7120 0130 6540]: "Present Conditions and the Future of China's Largest Harbor--Shanghai Harbor"]

[Text] Shanghai harbor is located at the western Pacific coast, in the center of the eastern coast of continental China, and at the mouth of the Chang Jiang which has a drainage basin of more than 1.8 million square kilometers. It enjoys the unique advantage of facing the Pacific Ocean, joining together the northern and southern coastlines, and having a vast economic hinterland behind. Before the Liberation, the largest traffic volume ever handled in Shanghai harbor was 14 million tons in 1936. Later, imperialist aggression and the imperialist support to the Kuomintang in fighting a civil war caused a sharp drop in the volume--down to only 1.94 million tons in 1949. After the founding of the People's Republic, followed by a few years of recovery, it was increased to 16.49 million tons in 1957 and to 91.9 million tons in 1983, ranking 10th among the large harbors of the world.

Its Role and Position

The development of Shanghai harbor and the economic development of Shanghai city depend on and promote each other. Shanghai is the largest economic center in the country. It is also an important scientific, technical and cultural center as well as the largest industrial city with a harbor of its own. In 1983, the total industrial output of Shanghai city amounted to 11.03 percent of the national total, its revenues for the state amounted to 16.4 percent, its commodity allocation amounted to 40 percent, its export volume amounted to 16.3 percent and its harbor traffic amounted to 36.8 percent. Therefore, it plays a very important role in national economic construction.

Despite its favorable geographic location and fine harbor conditions, Shanghai city lacks material resources for its economic development. Therefore, it must maintain a smooth traffic flow before its economy can be smoothly developed. At present, two-thirds of its total traffic, both inbound and outbound, and the transportation of the overwhelming majority of important materials of heavy consumption, such as petroleum, coal, steel and iron, timber, building materials and grain, are handled through the harbor. In

1982, 47.6 percent of Shanghai harbor's traffic handling capacity was used in serving Shanghai city directly. In this sense, Shanghai harbor is the throat of Shanghai city.

In addition to Shanghai city, this harbor also serves many fraternal provinces and regions which form its economic hinterland. For a very long time in history, these provinces and regions have maintained their close contacts with Shanghai through the water and land routes and at the same time used Shanghai harbor was an entrepot for their materials. That is why the volume of intransit freight amounts to a fairly large portion of Shanghai harbor's traffic volume, averaging 45.5 percent in the 1960's, 50.6 percent in the 1970's, and 52.4 percent in 1982 with an upward trend in the 1980's. The materials have been transshipped to 18 provinces and regions, mainly to Sichuan, Hebei, Hunan, Jiangxi, Anhui, Jiangsu and Zhejiang--the seven provinces in the Chang Jiang drainage basin to which 62.5 percent of the transshipped materials were destined. This shows Shanghai harbor's characteristics as a locality as well as a zone.

As an important international harbor, Shanghai harbor has trade contacts with more than 160 countries and regions. In 1983, the volume of exports in foreign trade out of Shanghai totaled $3.65 billion. Of the total volume of foreign trade traffic, 97 percent was handled through harbors, and 20 percent of Shanghai harbor's traffic was from foreign trade. Every 10,000 tons of outbound foreign trade traffic can bring $10 million to the port in the form of loading charges. Shanghai harbor is also the home base of China's largest ocean shipping company--the Shanghai Ocean Shipping Company which, in early 1983, owned a fleet of 140 bulk cargo ships, advanced roll-on/roll-off ships, and container ships with a total deadweight tonnage of 2,035,000 tons. This fleet has carried more than 10 million tons of freignth in the same year and has become the mainstay of Shanghai's foreign trade transportation. The Zhongbo Shipping Corporation, a joint venture of China and Poland in Shanghai, owns a fleet with a deadweight tonnage of 300,000 tons and a freight capacity of nearly 1 million tons. The fleets of these two companies are continuing to expand. Shanghai harbor has contacts with about 400 ports in the world through cargo ships, and each year, more than 2,000 international ocean liners sail in and out of this harbor. Shanghai Ocean Shipping Company has opened 12 scheduled direct routes to the ports of Europe, America, Japan, Australia, Singapore and Hong Kong. Since the Third Plenary Session of the 11th CPC Central Committee, the central authorities have decided to adopt an open policy and then opened 14 coastal cities to the outside world this year. Shanghai has a fairly good environment for investments and has recently allotted two new areas--Minxing and Hongqiao--to be used mainly for developing tourism and building factories and offices of the consultates stationed in Shanghai. More and more foreign traders have now been attracted to this place to set up their business agencies, and extensive business engotiations have taken place. At present, about 15 foreign banks have established their offices or branches, more than 60 foreign companies and enterprises have set up their offices, and more than 10 joint ventures using Chinese and foreign investments

have either started their operation or are constructing their factories in earnest. All these activities augur a vigorous development of Shanghai's economic cooperation with foreign countries in future.

Present Conditions and Problems

Shanghai harbor is located at the mouth of a river in the subtropical zone which is ice-free. Even blizzards and storms do not basically affect navigation or the work of loading and unloading, and all productive activities can be carried out throughout the year. The present harbor area is now spread out on both banks of the Huangpu Jiang. The channel through which the Chang Jiang enters the Huangpu Jiang is 7 meters deep with a tide range of 1.5 meters. Ships with a draught of 8.5 meters can sail in and out of the harbor with the tide twice a day. At high tide, even ships with a draught of 9.5 meters can be accommodated in the harbor. However, large ships are now used in ocean shipping for foreign trade, and it is difficult for fully loaded ships of more than 40,000 tons to enter the harbor because of the depth required. To solve this problem, a 10,000-ton ship was remodeled in 1979 to share the load. This ship was constantly moored in the anchorage at Luhuashan near the Shengsi Islands of Zhejiang Province more than 70 nautical miles from Shanghai. The huge ships had to reduce their loads before sailing into Shanghai harbor for offloading. This arrangements met the requirements of foreign trade to a certain extent. In 1982, for example, about 14 million tons of freight were carried by ships of 50,000 tons or more.

The coastline which can be utilized by Shanghai harbor from Wusongkou to Minxing area is about 130 kilometers long, including 30 kilometers water. However, the commercial coastline under the jurisdiction of the Shanghai Harbor Administration Bureau is only 15.4 kilometers with a length of 13.5 kilometers for wharves and only 11.4 kilometers for deep water wharves. The area of warehouses for productive activities is only 1.28 million square meters, and nearly all the 12 loading-unloading zones and the four passenger terminals under this bureau are located in the section of the river below Zhoujiadu. Since the founding of the People's Republic, the state has invested a total of more than 700 million yuan in building and altering 9 kilometers of wharves and 64 berths, or two-thirds of the existing length of wharves and number of berths. Shanghai harbor has now 45 berths for 10,000-ton ships, 12 berths for 5,000-ton ships, and 39 berths for 3,000-ton ships. Among the newly built project, No 9 and No 10 loading unloading zones, mainly intended for foreign trade exports, were built in Jungong Road near Wusong at the lowest reaches of the river. In 1983, the four terminals specially built for containers in the 1970's handled 763,000 tons of cargo in 80,000 international containers which amounted to more than one-third of the total national container handling capacity. At the same time, more than 3,400 sets of loading-unloading machines were added to the harbor equipment and the work of loading and unloading, either vrtically or horizontally was basically mechanized. The container terminal was also computer controlled. This shows the beginning of modernization in the technical management of wharves.

The biggest problem in Shanghai harbor now is the serious shortage of berths, as a result of which the existing capacity has been over-taxed for a long time. This shortage has produced many adverse effects. First, is hinders the growth of the harbor's traffic handling capacity. According to calculations in the 4 years preceding the 1980's, the rate of such growth was only 2.5 percent each year, and far from adequate for the foreign trade needs. This is a serious obstacle to the economic development of Shanghai city. Second, the load to be handled exceeds the capacity of the berths. According to the data collected by the Shanghai Harbor Administration Bureau on the 96 berths in the harbor (which do not include the services of pontoons and lighters), each of these berths is handling an average of approximately 600,000 tons each year (not counting the loads carried by ships of less than 1,000 tons). This load is more than 8 times that of Hamburg harbor of Federal Republic of Germany which is the most efficient harbor of the world in load handling and whose berthing facilities can be counted on at all times. The present berth utilization rate in Shanghai harbor is as high as 80-90 percent, resulting in heavy demurrage. Third, the shortage of berths and their being over-burdened naturally lead to inefficiency in loading and unloading, and create storage problems on land as well as traffic jams in water transport. Furthermore, since the harbor area does not have its own roads, many work zones have to collect and distribute cargoes through the roads across the downtown area where the capacity of passage is much restricted.

Transformation and Development

The transformation and development of Shanghai harbor to meet the needs of Shanghai city in developing its economic relations at home and abroad will touch on a very complex question and involve a wide range of issues. Shanghai, as the center of Shanghai Economic Zone with its 10 cities and 55 counties, should change its economic structure, renovate its equipment to produce suitable goods for the international market, and play an active role in the international division of work and market.

After investigation and study by the departments concerned, the State Planning Commission and the planning office of the Shanghai Economic Zone have decided on a traffic handling capacity of 180 million tons as the scope of development and the basis of construction of Shanghai harbor by the turn of the century. In other words, the traffic handling capacity will double. To attain this objective, the transformation of the old harbor and the development of the new harbor must proceed hand in hand. The former requires the tapping of potential and transformation and can show its initial effects in the near future, but the latter calls for a long construction period so that even though the work is started right away, it will not be ready for operation at least until the 1990's.

By transforming the old harbor area and dividing the flow of traffic in a rational way, we can solve the problem of inadequate capacity of passage for the time being. We can proceed with this work in two different directions. First, we must realize that the deep-water coastline along the Huangpu Jiang is not being fully utilized. According to data collected by the harbor administration bureau, there are still 57 noncommercial berths (owned by plants

and enterprises) in Shanghai harbor, mostly of a very low utilization rate. Furthermore, there are nearly 10 kilometers of deep-water coastline owned by the plants and enterprises along the river bank, and this coastline is not being used at all. Thus while the coastline and the berths for commercial use are being over-burdened, the noncommercial coastline and berths are only partly used. There is also the irrational phenomenon of deep water being left unused, or being used for purposes which can be just as well served by shallow water. In any case, the utilization rate of deep-water coastline is now too low. Suitable readjustment and transformation can increase the number of berths. According to an estimate, if the coastline is suitably readjusted and new berths are added, the capacity of passage can be increased by about 15 million tons. Second, we should further strengthen Shanghai harbor's cooperation with other harbors through division of work and then divert some traffic to other harbors. This will help reduce the pressure on Shanghai harbor. Nantong harbor, which is at the lower reaches of the Chang Jiang in Jiangsu Province and is 128 kilometers from Shanghai, for example, can be reached from Wusong by ships of 10,000 tons within 3-4 hours, and can share the loads destined to the provinces along the Chang Jiang. Again, Changjia harbor, located in Shazhou County, Jiangsu Province, 170 nautical miles away from Shanghai, can also share the loads destined to the southern region of Jiangsu. Furthermore, there is the newly built Shenhai-Beilun harbor in Zhejiang Province. This harbor was built mainly for iron ores in transit to Baoshan Iron and Steel Complex with a traffic handling capacity of 20 million tons. Its traffic volume has not yet reached the designed level. An important harbor in a position to share Shanghai harbor's traffic outside the Shanghai Economic Zone is Lianyungang of Jiangsu Province in the southern part of Huanghai. It can share the load destined to the central plain and the northwest region. According to an estimate, Shanghai harbor's traffic volume which can be rationally diverted to other harbors amounts to one-third of its intransit traffic. Its passage capacity can be increased first by readjustment of the coastline and the berths, and second, by reduction of traffic through partial diversions. If the capacity of passage can be increased with these two methods, the situation in Shanghai harbor being overburdened can be changed in the near future.

Opening a new harbor area is the key to the increase in Shanghai harbor's passage capacity. Since the coastline along the Huangpu Jiang has already been fully utilized, further development must take place away from this river, and the two wings of Shanghai city--namely, Luoshi harbor area south of the mouth of the Chang Jiang and Jinshanzui harbor area north of Hangzhouwan have been chosen. This choice was made after long investigations and study and repeated comparisons with many alternative sites. Luoshi harbor area is to the northwest of Baoshan Iron and Steel Complex and at the borderline between Shanghai and Jiangsu Province. The depth of water in front of the wharves is 10.5-13 meters. However, the "three sands" which affect the navigations channel of the Chang Jiang must be brought under control before this harbor can be used to full advantage. At present, the water at the mouth of the Chang Jiang is only 7 meters deep and the tide level cannot be of much help. Therefore, it is unsuitable for the entry and exit of large ships.

However, it has the advantage that with a railway station now behind the harbor, transshipment from ships to railways will be more convenient. Furthermore, since the state highways, as planned, will enter Shanghai at the outskirt of downtown Puxi, it will be more convenient to collect and distribute cargoes through the highways behind Luoshi harbor. Such collection and distribution within the Chang Jiang and the Tai Hu system is also convenient. Jinshanzui is located to the northeast of Jinshan General Petro-Chemical Plant, and some 70 kilometers from the center of the city, about twice the distance between Luoshi and the center of the city. Facilities for collection and distribution here by railways, highways and waterways are not as good as in Luoshi and the location of the harbor was also farther away from the city. However, the water here is more than 8 meters deep with an average tide range of 3.9 meters and therefore suitable for the entry and exit of ships of 50,000 tons. An even greater advantage here is that since it is fairly far away from the city, construction of this harbor can be undertaken in combination with the construction of Shanghai to help in the reduction of the urban population. At present, preparations for the advance work for the new harbor areas for Shanghai are included in the meeting agenda, and work will start earlier in Luoshi than in Jinshanzui. There will also be cooperation with foreign investors in order to gain the advanced experiences of foreign countries in harbor construction so that by the turn of the century, Shanghai harbor will certainly be built into a large modernized harbor of the Orient comprising the old and the new harbor areas and with a total traffic handling capacity of 180 million tons. After 2000, Ningbo-Zhenhai-Beilun, Nantong and Zhangjia harbors may all be merged with Shanghai harbor to form an even larger harbor of the Orient, and possibly become an important center of international trade and world banking.

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TRANSPORTATION

CENTRALITY OF TRANSPORTATION TO ECONOMIC GROWTH STRESSED

Beijing NONGMIN RIBAO in Chinese 8 Feb 85 p 1

[Special Editorial: "Tenth Discourse on the Adjustment of the Agricultural Production Structure--Flourishing Commodity Economy Requires a Well-Developed Transportation System"]

[Text] Commodity exchange is the continuous process of transferring the products of labor from the place of the production units to the hands of the consumers. This transfer of products is the task of the transportation system. Transportation is the continuation of the commodity production process, and any flourishing commodity economy is always closely linked with a well-developed communications and transportation system. China's huge rural communications and transportation system is still in a state of backwardness. Up to this day, certain remote mountainous districts of our border areas are not open to railway or highway traffic, some still must rely on animal-drawn carts, pack horses and donkeys, or even on the shoulders of men. Now that a rural commodity economy is gradually developing, the expanding specialized division of labor, the larger percentage of marketable goods and the spread of markets for agricultural and sideline products, all demand an early improvement in the state of our communications and transportation. Adjustment of the agricultural production structure, ensuring the advantages from local natural resources, ability to bring economic advantages into play and breaking down the "small and complete" structural ideal of the past will also demand the prerequisite of a well-developed communications and transportation system.

Speeding up the construction of our communications and transportation system must preserve our policy of joint involvement of state, commune and individual. If we are to fully mobilize the strength in all quarters, we must build a network of feeder highways that extends in all directions in our remote border areas, and must also build or extend our trunk lines. This year, the state has allocated a certain amount of materials, such as grain, cotton, cotton cloth, steel products and explosives, to support roadbuilding in mountainous and otherwise unfavorable areas. The various localities must effectively organize and arrange this matter and ensure completion within the set time limits. In well-developed and otherwise

favorable areas, we must encourage and advocate that the local society raise the funds to build highways; whoever invests shall have the benefits. On bridges and sectional roads built with funds raised by the peasants, a reasonable amount of toll may be charged. We shall continue to use such methods as using people's labor for public projects, have projects run by the local people with subsidies from the state, guide the peasants to start out from a consideration of long-term interests and effect an accumulation of public labor. Within amounts approved by the state, the provinces, autonomous regions and directly administered municipalities may also issue highway or waterway bonds for a certain proportion of the expenses, in line with the plans and the dimensions of communications construction.

We must exploit every potential in order to strengthen our rural transportation capacity. Currently, a "motorcar buying" rush has started up in the rural areas, which is a very good thing and which must be encouraged. The state has this year increased the quantity of motorcars to be sold in the rural areas and is energetically supporting improved transportation by the peasants. Idle vehicles or boats belonging to state-run communications enterprises may also be leased or sold to the people for their use, thereby raising the utilization ratio of these items. Operation of communications systems requires very large outlay and covers a large expanse. We must, therefore, actively support the peasants in their cooperative efforts to form motorcades, transportation cooperatives and various kinds of service facilities. Economic and other suitable cooperative organizations of a local nature could all pool capital to operate transportation. We must pay particular attention to support the peasants in their pooling of funds to organize transport cooperatives, such as fleets of cars or boats, in fairly large proportions with the purpose of serving transportation. We must encourage them to expand their activities to outside their counties and provinces and engage in long-distance transportation.

Transport installations of all kinds operated by the communications department must promptly provide services to state-operated or people-run transportation without any discrimination. We must strengthen administrative management work concerning communications and transportation, but strictly prohibit the unpaid appropriation of vehicles or boats from peasants, and also strictly prohibit arbitrarily setting up excise stations on the transportation routes of the peasants, willfully creating other obstructions, committing unjustifiable interferences or indiscriminately imposing fees.

9808
CSO: 4006/479

TRANSPORTATION

SIMAO-LANCANG HIGHWAY REPORTED COMPLETED

Beijing NONGMIN RIBAO in Chinese 9 Feb 85 p 1

[Article by correspondent Su Beihai [5685 0554 3189]: "With Economies in Investments, Little Fuss and Great Speed: Yunnan Employs a Method of Inviting Bids From Peasants for Trunk Highway Construction; Leading Comrades of the Central Authority Ask Departments Concerned To Pay Serious Attention to This Experience and Make It Widely Known"]

[Text] The first trunk highway construction in Yunnan Province that is carried out with state subsidy and capital raised locally and for which the peasants had submitted a tender, has just been completed in all its length by the labor of more than 12,000 peasants. This highway, built according to the state standards for third-class highways in mountainous terrain at a total length of 180 km, required an investment of only 150,000 yuan per km, which is a saving of more than half compared to the construction cost of specialized road construction teams. The leading comrades of the central authority asked all departments concerned to pay serious attention to this experience and make it widely known.

The Simao-Lancang highway originally had to wind around two counties of the Xishuangbanna Prefecture for a length of over 350 km; the present direct highway between Lancang and Simao reduces the route to 155 km and, furthermore, establishes a link between the border town of Simao and the three counties of Lancang, Ximeng and Menglian. The various nationalities in the border region had long hoped for the construction of this road, but due to the large dimensions of the engineering project and the large investment required, the work could never be started, although several surveys had been done in the 1950's and 1960's. In the last few years, in the wake of developing commodity production, there arose the pressing need for the construction of this road. The Yunnan Provincial Government decided to change the previous system of dispatching specialized work teams, and it adopted the method of having the local people carry out the public project, having them execute all the work of building the Simao-Lancang highway with a subsidy from the state. In February last year. they allocated 27 million yuan, used the method of inviting bids and had the regional and village peasant work teams contract for the work. In July last year the Simao-Lancang highway engineering directorate posted an invitation to bid and within less than a month, more than 13,000 peasants of 113 work teams from

within and outside the province were evaluated and accepted. They guaranteed to complete the construction of the highway before the end of 1986 in good quality and total length. There are many advantages in having the peasants construct the trunk highway: First, a saving in investments. The peasant work teams are already on the spot to perform the work, and compared to specialized work teams, this alone can save about 30 percent in various compensations, transfer allowances and management fees. Second, there is little involvement in conflicts. The problems of occupying field, dismantling houses, removing graves, cutting down trees, and other such troublesome problems are solved satisfactorily before work is started. Third, the peasants who have contracted for highway construction show a high degree of zeal and struggle bravely day and night. From starting overall work in the middle of September last year to 20 January this year, they already moved over 1.7 million M^3 of earth and stone. It is anticipated that the first stage of 76 km of earth road will be completed and opened for traffic by the end of March.

9808
CSO: 4006/479

TRANSPORTATION

ACCELERATING HIGHWAY CONSTRUCTION

Beijing NONGMIN RIBAO in Chinese 9 Feb 85 p 1

[Commentator's article: "Shortcut To Accelerated Construction of Trunk Highways"]

[Text] The method adopted by Yunnan Province for the construction of trunk highways, namely, of providing a state subsidy, having capital raised locally and allowing the peasants to bid, is a shortcut to accelerated construction of China's trunk highways. The leading comrades of the central authority ask all departments concerned to pay attention to this experience and to make it widely known.

Developing highway transportation is one of the important measures for speeding up China's economic construction, and for bringing prosperity to the peasants, especially to those in the mountainous regions. For a long time, a major reason for the slow progress of our highway construction was that trunk highway construction relied on state investments and that they had to be constructed by specialized highway construction teams. However, due to the limitations of the state's financial, material and manpower resources, many needed trunk lines could not be included in the plan, not to speak of branch highways and special-use highways that localities wanted to have built.

The method of having the state undertake the construction of trunk highways has also often given the local peasants a kind of wrong impression, namely, that "it is the state that wants to build a highway here," not that it is us, the peasants, who want to build it. As a result many troublesome conflicts arose in connection with the requisitioning of land, removals, etc. and very high demands for indemnity were frequently made. This not only added to the burdens of the state, but also wasted much time and in some cases made construction impossible. Conditions are completely different with the method employed by Yunnan, namely, of providing a state subsidy but having the local governments, level by level, raise the capital and of organizing the peasants to build the trunk highways. The peasants will then regard it as a case of "ourselves wanting to build the highway," the local government will deal with the project as having a share in it, and conflicts will be greatly reduced. Using the method of inviting bids for the construction of highways will also stimulate the enthusiasm of the local

government and of the masses of peasants, which will make it easy to achieve economies in investment and to complete the work quickly and to high standards of quality. The trunk highway between Simao and Lancang was constructed with a saving of over half the costs, compared with costs by specialized highway construction teams. The fact that the work of moving over 1.7 million M^3 of stone and earth was completed in 4 months fully demonstrates that the method of having highways constructed by the people with a subsidy from the state is a shortcut and worth being energetically encouraged.

9808
CSO: 4006/479

CHINESE MEDIA ON FOREIGN ECONOMIC AFFAIRS

SHIJIE JINGJI DAOBAO ON ECONOMIC REFORM IN BULGARIA

HK280740 Shanghai SHIJIE JINGJI DAOBAO in Chinese 18 Mar 85 p 4

[Article by Cao Ying [2580 5391]: "How Bulgaria Achieves the State's Overall Interests in Reform"]

[Text] Reform has been carried out and repeated explorations have been made in Bulgaria since the 1960's when a new leading system was adopted in its national economy. At present, new economic methods and new economic mechanisms are being practiced in this country. Since 1981 Bulgaria has in theory clarified the position of the state as the owner of the property of the whole people and that of the working collectives as direct operators of this property. According to that, what the state has to do is just to perform the function of the owner through enacting economic legislation and setting standard economic quotas to ensure the basic proportions and necessary growth rate of the national economy, rather than engaging in the direct management of the property of the whole people, as was done in the past. Those who engage in direct operations are the working collectives in enterprises, such as workshops, sections, and work teams. The enterprises fulfill the tasks assigned by the state, in accordance with a few mandatory quotas such as the sales volume of their main products, the total profits, and monetary incomes, and conduct economic accounting based on the system of assuming sole responsibility for their own profits and losses.

According to the new economic methods, while expanding the power, duties and responsibilities of the enterprises, the objective economic laws, including the law of value, the relations between commodity and money, and the role of the economic levers should be used to eliminate the abuses resulting from the excessive administrative orders of the previous system.

The purpose of expanding the power of the enterprises and replacing the method of giving administrative orders with economic methods is to correctly handle the relations between owner and operators and to better harmonize the interests of the state, the collective, and the individual. However, under such conditions, it is still necessary to pay attention to the negative influence of the law of value, the relations between commodities and money, and the economic levers, and prevent the overdevelopment of decentralization.

But we must not give up eating for fear of choking. In theory, it is entirely possible that contradictions may occur between the owner and operators. In practice, it also often happens that the interests of the collective and the individual do not conform to those of the state and the whole. The state may possibly infringe upon the interests of the collective or the individual, and the latter may also possibly infirnge upon the overall interests of the former. While paying attention to harmonizing the interests of the state, the collective, and the indiviudal, Bulgaria has emphasized guaranteeing the interests of the state. Although there may be contradictions between the three, it is necessary to declare once again that they are not antagonistic under socialism. Fundamentally spekaing, the interests of the three coincide.

In order to guarantee the interests of the state, under the conditions that the power of the working collectives is expanded in accordance with the theory of the owner and operators, Bulgaria has worked out a series of regulations, stipulating that after the power of the working collectives is expanded, the power of the directors and managers must not be weakened and their prestige must not be lowered. Being representatives of the state, they represent the will of the owner and their duty is to safeguard the interests of the state and society and to implement the policies of the state. The position, role, and duties of enterprise leaders are not lowered, weakened, or lessened when the democratic rights are enhanced in the enterprises and competition is carried out among the leaders. They must combine the interests of the state with those of the collectives and give appropriate consideration to those of the individual so that the relations between the three can be correctly handled.

During the reform of the economic structure, which is being carried out in various East European countries, since the power of the enterprises has been expanded (this is entirely necessary), there have also been some contradictions between the interests of the enterprises and their working collectives and those of the individuals when dealing with the proportion between accumulation and consumption and handling the relations between the interests of the whole and those of the part. As a result, the overall interests of the state have been infringed upon. Over the past few years similar things have also occurred in our country during the effective reform of the economic structure. This is a problem that merits our serious attention. It is necessary to design and adopt a certain mechanism in our economic structure so as to prevent such things from being repeated in the future. Bulgaria is solving such problems by adopting effective measures and strengthening theoretical and educational work.

CSO: 4006/519

TAIWAN

OFFICIAL ON TWO-WAY TRADE WITH CENTRAL AMERICA

OW030319 Taipei CNA in English 0240 GMT 3 Apr 85

[Text] The nation's two-way trade with Central American nations last year totaled $220 million, up 28 percent from the year before, and this indicates that the region is an ideal place for diversification of the nation's overseas markets, Yuan Pao-pi, deputy secretary general of the China External Trade Development Council [CEDTC], said Tuesday.

Yuan made the remark in a press conference at the Ritz Hotel in Taipei jointly sponsored by the CETDC, the Costa Rican Embassy in the Republic of China [ROC] and the Evergreen Marine Corporation.

Yuan pointed out that the opening of a regular containers route to Costa Rica is expected to further enhance the trade between this nation and Central America.

An official with Evergreen line said that the first full container vessel on this route will sail April 23 and arrive in Costa Rica May 23. In the initial stage, the Evergreen line will run the route every two weeks.

Federico Faeron Valdez, ambassador of Costa Rica to the ROC, said at the press conference that he believes the opening of this route will further enhance the trade and economic relations between the two nations.

Faeron said he hopes the private sector here will make more investment in and provide technical assistance to Costa Rica. He indicated that his government has worked out many incentive measures to attract overseas investors, especially businessmen from this nation.

The Costa Rican ambassador said that his nation has maintained a very close and friendly relationship with the Republic of China since official ties between the two nations were established in 1941. He also disclosed that Costa Rican President Luis Alberto Monge has decided to visit this nation in May.

CSO: 4020/169

TAIWAN

FREE TRADE AREA URGED TO BALANCE TRADE WITH U.S.

OW040945 Taipei CHUNG YANG JIH PAP in Chinese 30 Mar p 1

[Text] To remedy the longstanding trade imbalance between the Republic of China [ROC] and the United States, International Trade Bureau [ITB] under the Ministry of Economic Affairs is presently studying the feasibility of concluding an agreement with the United States on establishing a ROC-U.S. free trade area [FTA], within which preferential measures are to be adopted to facilitate the import of each other's products.

ITB Director Hsiao Wan-chang, who is currently doing research work in the United States as a recipient of an Eisenhower Fellowship pointed out recently that the FTA is one way to improve Sino-U.S. trade. He has instructed departments concerned under the ITM to study the feasibility of the FTA.

The establishment of an FTA is a trade measure approved under the GATT (General Agreement on Tariff and Trade); it is smaller in scale than a free trade zone. It is reported that legislation on a U.S.-Israeli FTA agreement will soon be completed, and that the United States is ready to talk with Canada on concluding a free trade agreement and granting each other preferential treatment.

ITB pointed out that since the gap in the ROC-U.S. trade balance has been widening in recent years, the ROC may propose to the United States the establishment of a ROC-U.S. FTA, within which taxes will be exempted on each other's machinery, telecommunications equipment, computers, and other scientific instruments and technological goods.

ITB indicated that the purpose of establishing the FTA is:

1. To balance ROC-U.S. trade. It said that even if the ROC should drastically reduce import tariffs for industrial and consumer goods, it would still be difficult for U.S. products to compete with Japanese goods on the ROC market, and that ROC-U.S. trade can only be balanced through the establishment of an FTA.

2. To introduce advanced U.S. scientific and technological know-how and equipment as well as capital into our country, and develop foreign markets for the ROC's electronics, electrical, and machinery goods.

3. To strengthen the ROC's status in its trade talks with the United States, and demonstrate the ROC's sincere desire to balance its trade with the United States.

CSO: 4006/520

BRIEFS

TRADE WITH ARGENTINA--Buenos Aires, March 28 (CNA)--The two-way trade between the Republic of China [ROC] and Argentina amounted to U.S. $48.4 million in 1984. According to Calvin Liu, chief of the commercial section of the Taiwan Commercial office here, the Republic of China imported U.S. $37.025 million worth of goods from Argentina while it exported U.S. $11.364 million worth of goods to that South American country last year, resulting in a U.S. $25 millin trade deficit for the ROC. The Republic of China's exports to Argentina in 1984 grew 12 percent over that of 1983. The export value was made up mainly on electronic components, bicycle parts and machinery, Liu said. Argentina's exports to the Republic of China included cotton, wool, kaoliang and medical products. [Text] [Taipei CNA in English 1333 GMT 28 Mar 85]

CSO: 4020/169

HONG KONG MEDIA ON CHINA

BANK OF CHINA GENERAL MANAGER ON PRC CAPITAL NEEDS

HK010505 Hong Kong SOUTH CHINA MORNING POST in English 1 Apr 85 Business Supplement p 1

[Text] China's capital needs for producing energy are expected to amount to U.S. D20 billion, the general manager of Bank of China, Mr Zhang Xueyao said yesterday.

"Nearly U.S. D10 billion are needed for the technological renovation of hundreds of thousands of enterprises," he said. Enormous capital is also needed for the development of the open cities and regions, he told a seminar organized by the Hong Kong Affairs Society.

"The major part of the capital needs to be raised and accommodated by the banks. This brings to the banks opportunities of trade financing and project loans and provides new outlets for surplus funds," Mr Zhang said.

The capital provided by the foreign entrepreneurs or the Hong Kong counterparts is limited in amount, he added.

As the fourth largest loan syndication center with numerous international banks, Hong Kong is in a positive position to organize syndications and raise funds for huge projects in China. Banks can be flexible in combining loans and investments, and this will benefit them in acquiring the status of "legal person" and to improve capital turnover and earnings. Many leasing companies are providing equipment to China, he said.

"It (Hong Kong) also is in a position to provide channels for some of the interior enterprises, especially in the joint venture enterprises, to issue stocks and bonds in the Hong Kong (stock) market to raise capital," he said.

On the basis of complementing each other, the economic cooperation between China and Hong Kong is bound to expand and be strengthened. According to statistics, about 60 percent of the foreign capital absorbed by China in recent years originated from Hong Kong, he said.

CSO: 4020/170

HONG KONG MEDIA ON CHINA

PRC OFFICIAL DISCUSSES SPECIAL ECONOMIC ZONES

HK011238 Hong Kong HSIN WAN PAO in Chinese 1 Apr 85 p 1

[Special dispatch from correspondent Yeh Chi-jung [0673 0796 2837]: "He Chunlin Answers Hong Kong and Macao Reporters' Questions on Special Zone Development"]

[Text] He Chunlin, director of the Special Economic Zone Office under the State Council, disclosed this morning that, by the end of 1984, foreign investment in China totaled U.S. $10 billion, of which U.S. $4 billion had been put into use.

He Chunlin met Hong Kong and Macao reporters this morning at the Chinese Reporters Association Club. He introduced the situation in the special zones and answered questions from the reporters on currency, the administrative line, the foreign exchange balance, and so on of the special zones.

He Chunlin said that by the end of 1984, the four special economic zones including Shenzhen, Zhuhai, Shantou and Xiamen had signed agreements on over 4,700 items with foreign businessmen, had received investments totaling U.S. $4 billion, of which U.S. $840 million had been put into use, accounting for one-fifth of the nation's total maount. The investment in Shenzhen Special Zone alone totaled U.S. $580 million, accounting for one-seventh of the nation's total amount.

He continued that Shenzhen's development ranked first among the special zones. In 1984, its industrial total output value reached 1.3 billion yuan (the total output value of the entire Baoan County was 1.8 billion yuan), a 20-fold increase over 1979. Its revenue totaled 450 million yuan, a 10-fold increase over 1979.

Foreign investment in the 14 coastal cities totaled U.S. $900 million in 1984, exceeding the total sum of the previous 5 years. The total amount of investment in the 14 coastal cities from 1979 to 1983 was only U.S. $580 million.

He Chunlin pointed pointed out that China's open-door policy is certainly not an expediency. We must ensure its continuity and stability. China is now making efforts to perfect the investment environment of the special zones and the coastal cities. Our main tasks at present are as follows:

1. Pay close attention to plans for importing foreign technology. In the past, each province imported production lines for similar products (such as television sets and refrigerators). In this respect, we must work out reasonable plans and define the short- and long-term tasks of each locality so that the work for each province is appropriately divided, the industrial distribution of each locality has its own characteristics, and better economic results are achieved.

2. Speed up the building of energy resources, communications and telecommunications. The State Council has made arrangements for rapidly completing hydropower, communications and telecommunitcations projects in the areas opened to the outside. Of this, civil aviation and telephone facilities will be markedly improved in this or the following year.

Besides Wenzhou and Beihai, air transport services between the rest of the open cities and the outside world will commence in this year.

Moreover, long distance telephone facilities in all the open cities will also be solved within the year.

3. Perfect the economic law and regulations involving foreign companies. The Commission of Legislative Affairs under the NPC and the departments concerned are stepping up work to accomplish the drafting of the economic law and regulations involving foreign companies as quickly as possible.

4. Pay special attention to the training of talented people. In 1984, a total number of 10,000 cadres from the open cities received training. This should become a regular practice for a long time to come. In addition, a number of key universities are appointed to train cadres for the special zones.

5. Pay attention to the building of spiritual civilization while adhering to the open-door policy. The criminal activities of smuggling and speculation in society must be sternly attacked. Effective measures should also be taken in the management over foreign exchange market.

He Chunlin continued that the development of the special zones and open cities has provided a bright prospect for Hong Kong's economic prosperity. In turn, Hong Kong's position and role will be increasingly important to the construction of the motherland. Some people say that the special zones will replace the role of Hong Kong in the future. This is impossible and also unnecessary.

He Chunlin disclosed that the State Council is handling the matter of the foreign exchange balance of the special zones, which includes regarding some of the products manufactured in the special zones as import products.

He Chunlin said that it is expected that only one-third of the products manufactured in the special zones is marketed abroad. In order to put an end to this situation, it is necessary to continue to make efforts for a period of time. The State Council is now making arrangements to improve the quality and vigorously develop the products that sell well abroad; and to reduce the production of goods that are not marketed in foreign markets. In order to main-

tain a balance in foreign exchange, products originally planned to be imported will be purchased from the special zones instead and foreign exchange will be paid in the transactions.

Some people say that the special zones have earned money from the interior. Concerning the issue, He Chunlin said: We should say that all sectors have benefited from their trade relations with Shenzhen. He continued: In the past 5 years, Shenzhen has made a profit of 290 million yuan from the interior, while the interior (including the central authorities) has made a profit of 520 million from Shenzhen.

The currency of special zones was the central issue set forth by the Hong Kong reporters. He Chunlin answered the questions raised by the reporters concerning the issue.

He said that there are two reasons for issuing the special zone currency. First, as the Rebminbi is inconvertible and an obstacle to the import of foreign investment, we must, in financial management, further improve the investment, we must, in financial management, further improve the investment environment of the special zones so as to attract more foreign capital. Second, the simultaneous existence of three currencies (renminbi, the foreign exchange coupon, and the Hong Kong dollar) and different prices for similar commodities in Shenzhen must be settled.

He Chunlin said that the special zone currency will be convertible. If it is issued in the special zone in the future, it will become the only currency in circulation in the special zone.

He continued that if the special zone currency is to be issued, it will be tried out first in Shenzhen and not simultaneously in the other special zones.

He Chunlin pointed out that issuing the special zone courrency would be an extremely complicated matter. A group of the headquarters of the People's Bank of China is still studying the matter and no decisions have been made so far.

Concerning the question of setting up factories at the border and letting the inland labor force work across the border proposed by some members of Hong Kong's Legislative Council, He Chunlin said: I believe this is impossible.

While replying to questions from the reporters on the issue, He Chunlin said: This is the first time I have heard of such a proposal. In my opinion, there is no surplus labor in Shenzhen. I think it would be impossible to let an inland labor force work across the border.

He Chunlin said that after the administrative line (second line) of the special zone is put into use, the existing Shenzhen Customs (first line) will still be effective and will not be withdrawn.

He explained that due to the simplification of entrance procedures, tax exemptions, and other preferential treatment, it is necessary to establish the administrative line to separate the special zone from the interior. Following the establishment of the administrative line, the contacts between the interior and special zone which are against state stipulations will be restricted.

CSO: 4006/517

HONG KONG MEDIA ON CHINA

PRC OFFICIAL ON WORLD PHONE-IN SAYS HONG KONG WILL KEEP CAPITALISM

HK080409 Hong Kong SOUTH CHINA MORNING POST in English 8 Apr 85 p 1

[By staff reporter]

[Text] A key Peking official told the world last night that China would learn from Hong Kong's free wheeling style of management and administration.

Mr Huan Xiang, director of the Centre of International Studies and a former charge d'affaires in London, said capitalism and communism would blend in post-1977 China under the one-country, two-systems formula.

Speaking on a global phone-in, organized from London by the British Broadcasting Corp, he said: "I think the keeping of Hong Kong's capitalist ways of life and economy is derived from the theory that we would like to let the two systems coexist within China.

"We don't think these will contradict with each other. On the contrary, we think they will complement each other.

"China will have a lot to learn from Hong Kong's way of management and administration--and Hong Kong will have a lot to learn on the trade that is going on between Hong Kong and China."

The programme was broadcast live by the BBC's World Service to an international radio audience and allowed callers to quiz Mr Huan, in Peking, on a range of sensitive issues.

Remarkably, and despite an approach to the BBC by the SCM POST yesterday, no calls were taken from Hong Kong although questions from listeners in Britain, Singapore, South Africa, Sweden and Australia were put through.

Mr Huan stressed, during the talkback, that China would follow the spirit of the joint declaration and not change Hong Kong's capitalist way of life in the immediate aftermath of 1997.

"We will keep Hong Kong's system and economic order...unchanged for the next 50 years," he said, answering a Stockholm caller.

"They will practice their capitalistic way of life, they will continue to do their business in the capitalist way, but at the same time it will be an integral part of China."

Mr Huan said possible problems in assimilating the Chinese and U.S.-linked Hong Kong currencies would also be overcome: "There are some differences, but I think the Chinese (yuan) and the Hong Kong dollar could establish a kind of ratio among themselves."

The program, the first of its kind to involve a senior Chinese Government figure, gave a rare insight into the improving lot of the Chinese worker under Mr Deng Xiaoping's progressive policies.

Mr Huan agreed peasants were benefiting most from the reforms, which were bringing better living standards to all but those in the most remote areas.

"We allow some people to get rich earlier than others because a person should earn more because of ability.

"(A worker) should enjoy life more because of what he earns through ability.

"But when this exceeds a certain limit then there should be, through taxation or other means, a way to correct this excess."

Mr Huan said the Chinese authorities were determined to prevent a repetition of the extremes of the Cultural Revolution, which curbed economic development in the late sixties and seventies.

This would be achieved by "democratizing" China so it would never again have to submit to the will of a single leader and stamping out the remnants of the infamous Gang of Four.

But, Mr Huan said, the new direction should not be interpreted as a repudiation of the Marxist ethos.

He said China had been forced to adapt to cope with the complexities not foreseen in the communist teachings.

"For instance, Marx did not see the electric lamp, Engels did not see the aeroplane, Lenin did not see a rocket and Stalin did not see a robot.

"You could not expect (the problems of) modern society and modern systems could be solved by men who did not see such things."

On other controversial issues, Mr Huan revealed China would welcome an opening of dialogue with Taiwanese leaders to bring about unification of the two nations.

He said China was prepared to offer Taiwan an even better deal than Hong Kong.

"We think the Taiwan authorities will eventually come around because the people of Taiwan want to be united with China," said Mr Huan.

"We are saying that the Taiwanese could preserve their capitalistic ways, even better than Hong Kong because Hong Kong has no military force, and we are saying to Taiwan they could keep their own military force in Taiwan."

He also admitted to an Australian caller that China had made "some mistakes" during the occupation of Tibet.

However, China had not recognized the country as a sovereign state and regarded the annexation as an "internal affair." Any "mistakes" had been remedied, said Mr Huan.

CSO: 4020/175

HONG KONG MEDIA ON CHINA

PRC BECOMES LARGEST MARKET FOR HONG KONG RE-EXPORTS

HK040844 Hong Kong HONG KONG STANDARD in English 4 Apr 85 Business Standard Supplement p 1

[Text] China was the largest market for Hong Kong re-exports, soaring 130 percent in 1984, or $15.82 million over the previous year, according to figures released yesterday by the Census and Statistics Department.

Hong Kong total re-export value surged 48 percent in 1984, from HK$27.2 million in 1983 to $83.5 million last year, with a 51 percent increase in re-exports to the U.S., Hong Kong's second largest market.

Telecommunications and sound recording equipment led the list of re-export commodities to China, jumping 303 percent or $2.8 million, followed by textiles, 106 percent increase or $3.3 million.

Re-exports of vegetable oils and fats, however, were down 73 percent or $45 million; transport equipment re-exports declined 56 percent, or $56 million.

China was also the largest source of Hong Kong re-exports in 1984, with a 336 percent increase in baby carriages, toys, games and sporting goods; textile yarn was up 149 percent; and travel goods. handbags and similar containers by 91 percent.

The largest category of re-exports to the U.S. in 1984 was mainly plastic toys, showing a 128 percent increase in 1984. Electrical machinery, appliances and parts reflected a 69 percent rise, in value by $455 million. Clothing turned in a 35 percent increase, amounting to $790 million.

Vegetable and fruit re-exports were off by 25 percent, down $85 million, and office machines and data processing equipment slipped 20 percent in 1984, off $36 million.

Overseas purchases of U.S. products through Hong Kong were led by civil engineering and contractors equipment, up 202 percent; data processing equipment increased by 148 percent and electronic components, up 79 percent.

Hong Kong's re-exports of electrical equipment to Taiwan sharply increased by 72 percent of $723 million; textiles were up by 74 percent, at $134 million.

Re-exports of specialty machinery to Taiwan were down last year by 36 percent, totaling $31 million.

Textile fibres topped the list of Hong Kong's re-exports to Japan, up by 416 percent, worth $259 million. Other textile re-exports increased 62 percent, or $236 million. Japan's overall increase in 1984 was 46 percent, or $1.4 million, compared to the previous year.

Japan was the second largest source of Hong Kong re-exports, with automatic data processing machines up 323 percent; transport vehicles jumped 216 percent; electronic components increased 134 percent; and telecommunications and sound recording equipment was up 90 percent last year over 1983.

Increases in re-exports were also recorded for cocoa, coffee, tea, spices and manufactures to Singapore of 24 percent, or $41 million; electrical machinery, appliances and parts re-exports rose 13 percent, or $94 million.

Non-metallic re-exports declined, however, by 53 percent of $118 million.

CSO: 4020/175

HONG KONG MEDIA ON CHINA

GUANGDONG DIRECTIVE CRITICIZES DOUBLE PRICING SYSTEM

HK040830 Hong Kong SOUTH CHINA MORNING POST in English 4 Apr 85 p 1, 28

[By Albert Chan]

[Text] The Guangdong provincial government has issued a strongly worded directive against the double pricing system in a bid to solve the much-criticised multicurrency problem in the province.

However, the directive is expected to have serious repercussions on foreign investment hotels, restaurants and other commercial enterprises as well as Chinese factories in Guangdong.

Although the official rate is 3.6 yuan to $10, the great demand for Hong Kong currency has boosted its blackmarket value to well above seven yuan to $10.

In view of this, hotels, shops, restaurants which cater to foreigners have set two prices for services.

For instance, those paying in yuan for a 100 yuan meal will have to pay 130 yuan (in some cases 150 yuan or even higher) while those (foreigners and Hong Kong visitors) paying in Foreign Exchange Certificates (FEC's) or Hong Kong dollars need only pay the 100 yuan equivalent.

There are also two prices for some foreign goods at friendship stores all over the country. The yuan price is much higher than the FEC price.

Furthermore, some products are only available in FEC's or Hong Kong dollars.

Even taxi drivers demand fares in FEC's and are reluctant to accept yuan.

As mainlanders are not allowed to change their yuan for foreign currency or FEC's, they resort to the blackmarket.

The directive clearly states that foreign currency will not be allowed to circulate in the hands of the general public.

According to the directive, the "double pricing" practice will have to be abolished.

"Enterprises which do not conform with the regulation after repeated advice will not be allowed to deal with foreign currency business," it said.

If foreign hotels follow the directive and stop and double pricing practice, they will have to raise prices considerably to offset losses in foreign exchange.

The directive will also hit individual enterprises, official agencies and factories in the province.

At present factories, for example, can freely export their products to earn foreign exchange and they can, with similar liberty, use foreign currency to buy imported machinery.

Cinemas in Canton have been using foreign currency in recent months to buy Japanese video recorders to show Hong Kong Kung-fu films and have been doing a roaring trade.

But under the directive, any transaction in foreign currency has to receive prior approval from provincial foreign exchange authorities and any foreign currency earned has to be reported.

Guangdong's Special Economic Zones (Shenzhen Shekkou and Zhuhai), Hainan Island Hainan Island and Zhanjiang are singled out in the directives.

The directive also reiterates [word indistinct] warnings against illegal trafficking in foreign currency.

The new regulations aim at curbing "blind import of foreign goods and wasting of foreign exchange belonging to the country."

It comes in the wake of harsh criticism of the problem which Hong Kong delegates raised at the Chinese People's Consultative Conference now in session in Peking.

Last week, Peking leaders--while openly admitting the blackmarketeering and the worsening multi-currency problem in China's open cities--assured that the government was determined to tackle them.

The State Council issued a directive on 18 March condemning the blackmarket in foreign currency but it did not touch on the complex double-pricing practice.

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HONG KONG ECONOMIC TRENDS

HONG KONG SYMPOSIUM NOTES GROWTH IN CHINA TRADE, INVESTMENT

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[Text] The secretary for economic services, Mr Piers Jacobs, has said Hong Kong's services sector will continue to grow in importance. He was speaking at a symposium on the territory's economy. Mr Jacobs said the Sino-British agreement had a positive effect on Hong Kong's economy. There should be greater investment in plants and machinery as well as in buildings and works, and Hong Kong's role as a link between China and the outside world would increase. He said this would be particularly true in the services sector.

[Begin Jacobs recording] I believe that the major factor in Hong Kong's economic development will be increased trade and other links with China, particularly South China, and especially the Shenzhen Special Economic Zone. I think there will be a continued increase in the relative importance of services in the economy, and this could develop handsomely in the area of export of services to China and other parts of the region. If Hong Kong has anything to offer China, it must surely be in relation to expertise in services, particularly financial and related services. We have earned our position in the world. Let us make use of it. [End recording]

Mr Jacobs also said Hong Kong must upgrade its industry. He said labor-intensive industries would become less competitive and would move to Shenzhen or other parts of China. This would leave Hong Kong having to upgrade its production methods and skills, but he rejected any major role for the government in making industry more competitive.

[Begin Jacobs recording] I believe that the government has a role to play, not by way of subsidy or investment in unproductive research and development, but rather by providing training and industry-related research. This we know from the vocational training council and the productivity center. We are improving. [End recording]

The Financial Secretary Sir John Bremridge also addressed the symposium. He said there had been rapid growth in Hong Kong's trade with China, and 90 percent of all investment in Shenzhen Special Economic Zone was from the territory. But Sir John warned that the signing of the Sino-British agreement did not mean that Hong Kong now had no more worries.

[Begin Bremridge recording] This agreement has removed the question mark, but it has not removed, nor could any piece of paper ever do so, the need for Hong Kong to devote every effort to maintaining its competitiveness in a difficult world trading environment. Competition from some newly industrialized economies, protectionist reflexes, and recession in Hong Kong's major markets pose a constant threat to the maintenance of export growth on which Hong Kong's future will depend. [End recording]

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